Nation's Business

A USEFUL LOOK AHEAD

DECEMBER 1960

What *business leaders* see ahead

Top executives forecast trends in new Nation's Business survey

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How to spot losing operations PAGE 66

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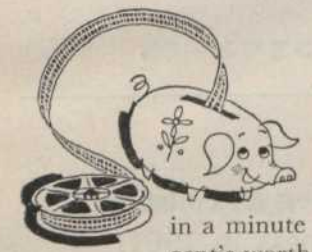
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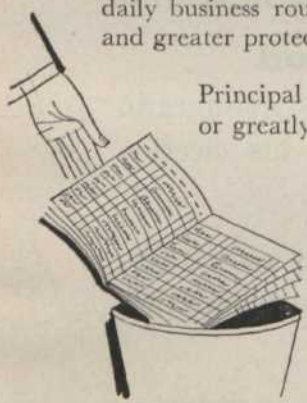
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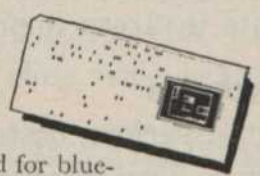
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Nation's Business

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Published by the Chamber of Commerce of the United States
Washington, D.C.

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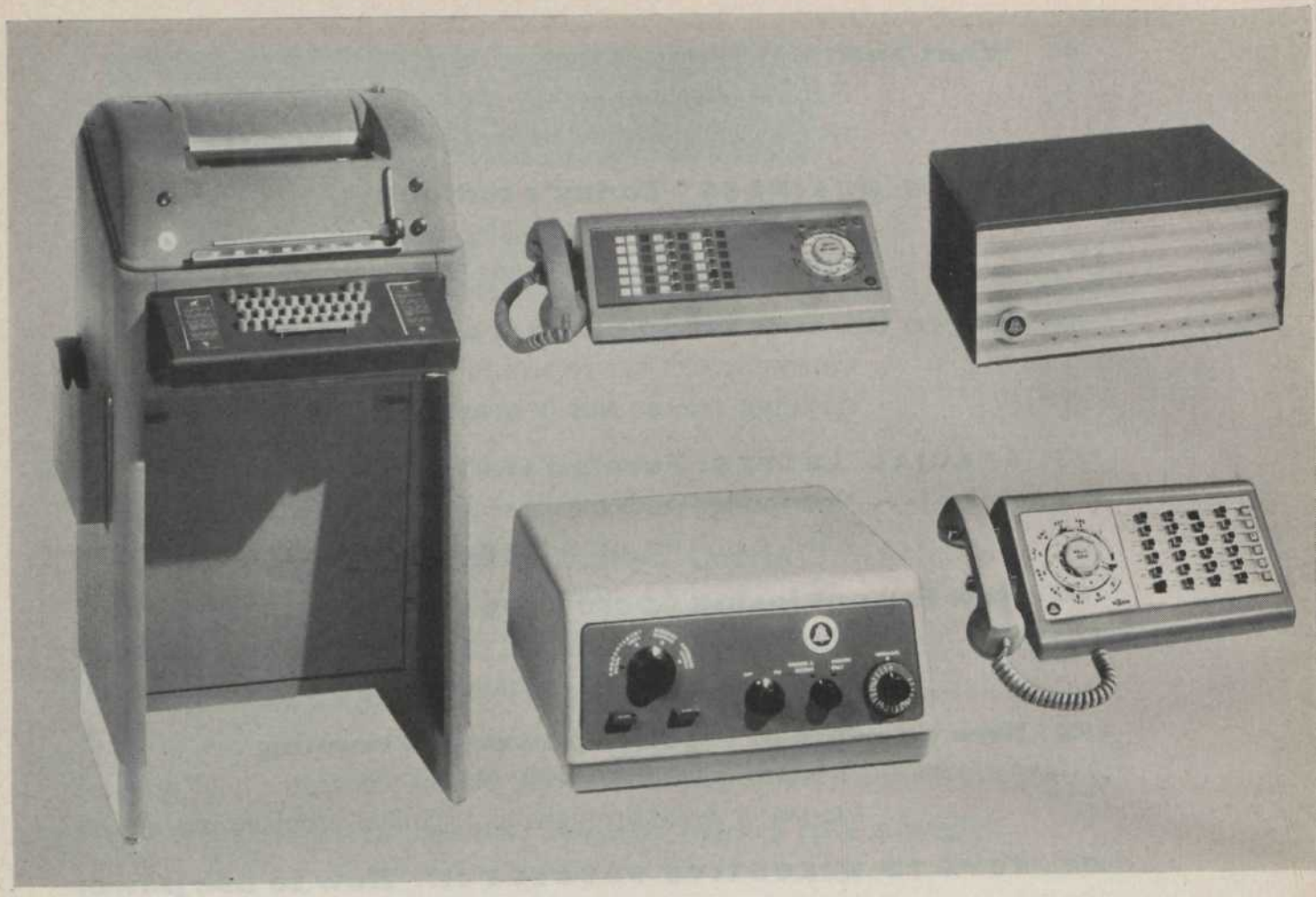
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management's WASHINGTON LETTER

▶CONGRESS next month will get off to fast start.

Here are key issues to watch:

Area redevelopment--This will come up early, involve federal spending programs in regions with pockets of unemployment.

Federal education--Big spending plan will be proposed for paying teacher salaries, building local classrooms at expense of all U. S. taxpayers.

Wage controls--Minimum pay, now $1 an hour, may go up 25 per cent, law extended to millions more workers.

Socialized medicine--Hard pressure will come to put medical care program for old people into social security package.

Spending--Federal budget will shoot up under pressure for increased expenditures for defense, foreign aid, government reclamation projects.

Labor legislation--Move will get under way early in congressional session to eliminate Section 14(b) from Taft-Hartley law.

That's section which makes state right-to-work laws possible.

Its elimination would wipe out state laws against compulsory unionism.

Congress also will be asked to approve federal standards for jobless pay.

Picketing provision of labor law will be another hot issue, hard pressure on Congress to weaken restrictions.

Also coming up early in new session of Congress:

Legislative proposals for more urban renewal, more spending for government housing programs.

Look on page 35 for details.

▶HIGHER VOLUME--lower profit.

That, in nutshell, is business outlook for year ahead.

▶NUMBERS TO HELP YOU with perspective:

Total value of all goods and services produced in U. S. in '60 will likely rur to about $504 billion.

For '61: Probably around $512 billion.

▶OUTLOOK IS BASED on assumption that economy will continue in sideslip for another six months, then start upward.

A year from now total output of goods and services could rise to annual rate of $520 billion.

▶PROFITS, under pressure from higher production costs, point lower.

Peak rate for profits was reached year and a half ago--running then at annual rate of $51.7 billion.

That was spring of '59.

Sharp decline set in.

Lift came with $48.8 billion profit rate during first part of '60.

Then new decline became evident.

Profits have been slipping downward ever since.

Forecasters think before-tax profits will do well to hold at $40 billion during year ahead.

▶ECONOMIC DETAILS--what business leaders see ahead--appear on page 44.

▶BAD DEBTS are getting easier to collect.

Finding is indicated by collectibility index compiled by American Collectors Association--nationwide association of collection agencies.

This indicator shows:

Overdue bills are easier to collect now than at any time during first half of '60.

Collectors say:

"Consumers are showing stronger position in paying past due accounts.

"Reports indicate that strengths and weaknesses are regional in nature."

Example of regional weakness:

Repossessions are heaviest in coal mining belt.

Unemployment is problem there.

Indication of strength:

Collection agencies note that average payment is larger than year ago.

▶USE OF CONSUMER CREDIT, slowing down recently, will jump ahead soon.

That's expectation of credit specialists in Washington and elsewhere.

Jump ahead, specialists say, will be followed by period of paying off consumer debts.

That means:

Consumer credit outstanding may decline during early months of '61.

After that?

New increase is expected to come after midyear.

▶HERE'S CURRENT credit situation: Con-

sumers owe more than $54 billion as Christmas season gets underway.

About $12 billion is noninstallment credit (including $4.5 billion charge accounts).

Remaining $42 billion is installment accounts, about 40 per cent of which is owed for purchase of automobiles.

About a fourth is owed on consumer goods, another fourth represents personal cash loans.

Remaining 10 per cent represents loans for repair and modernization.

▶TOTAL CONSUMER DEBT at this time is about $5 billion higher than year ago.

It's up $8.4 billion in two years.

It's more than $15 billion higher than five years ago.

Year from now?

Analysts think total outstanding will be about $2 billion higher.

▶BIG CONSUMER DEBT reason to worry?

Emphatically not, say specialists.

To back up their view, they point to charts showing that consumers regularly pay off their debts, that half now are debt free.

Consumers currently are paying off obligations at rate of nearly $5 billion a month.

That's more than $400 million a month higher than repayments a year ago.

But new debt commitments slightly exceed pay-off rate so that total debt outstanding is edging upward.

▶U. S. TALKING itself into recession?

Could be--to some extent.

Many businessmen and economists think first half of '61 will be level or dip slightly, followed by general upturn in final half of next year.

Dip inevitable?

Not at all, say some economists.

Gloom talkers are helping to scare consumers into don't-buy-now mood.

▶THERE'S MONEY ENOUGH in circulation, income enough--if it were being spent--to avoid economic dip.

What's wrong is that Americans think we're at brink of recession.

"Convince them we're not," economist says, "and business will start moving up again."

▶HERE'S BACKGROUND:

Step 1--Consumers, during early months of '60, were confident about the future, spending at high rate.

Step 2--Confronted with speculation that national economy was headed for downswing, consumers at midyear began to feel reluctant, expressed this feeling in surveys of consumer attitudes.

Step 3--Bad economic news persisted, causing consumers actually to hold off purchases.

Then this happened:

After-tax personal income rose by $3.4 billion at annual rate but personal consumption fell by $500 million.

Personal savings were boosted from annual rate of $22.5 billion a year ago to $29 billion in latest tabulation.

That means:

Americans, saving $6.60 out of each $100 of after-tax income a year ago, boosted savings rate to $8.10 per $100.

Specialist sums up:

Most Americans wouldn't have known that economic clouds were gathering on horizon if they hadn't read newspapers.

▶LOOK AT THESE FACTS:

Personal income now is running about $19 billion a year higher than year ago.

What's happening to the money?

About $12.5 billion is going into consumption, $6.5 billion being saved.

For every $2 of increased income being spent, $1 is being saved.

▶LOOK ANOTHER WAY at these facts:

Americans are saving $34 out of each $100 of take-home income gain.

That's $27 more than average for past five years.

▶TOP WASHINGTON economist reasons this way:

If, out of higher annual pay Americans are getting now, they saved only as much as average for past five years, they'd boost consumption by annual rate of more than $5 billion.

"That much increase," he points out, "is enough to stave off decline during early part of '61."

▶DON'T OVERLOOK THE IMPACT of government purchases on business.

Each time consumers spend $3.25 for

food, clothing, shelter, appliances, cars, other goods, government spends $1 for tanks, missiles, planes, ships, sewers, airports, streets, new buildings, etc.

▶GOVERNMENT SPENDING points up.

Some analysts look for budget deficit when fiscal year ends next June.

That's revision downward from formerly anticipated $1.1 billion surplus.

Next month you'll get new estimate of fiscal finance from outgoing President Eisenhower.

Also coming next month:

President Eisenhower's estimate of federal spending and revenue for fiscal '62.

Soon after Senator Kennedy takes office in January he'll also deliver messages to Congress.

In those messages you'll get another version of economic outlook, prospects for federal revenue and taxation.

▶FINDING EXECUTIVES to fill jobs is one business that's booming.

Executive placement firm in New York says it is making half again as many placements as a year ago.

Reason: Companies are trying hard to get better men in key jobs.

That's result of top management's planning for the future.

There's plenty of shifting going on even within companies, too.

In some cases, placement firms are asked to search for executive talent in order to compare men already working for the firm with those working for other companies.

▶ASK YOUR LEGAL ADVISER to keep close watch on business regulatory agencies.

Some changes will become evident in early months of new year.

Here's why:

Key agencies will get new members who can change philosophy of regulation.

Agencies theoretically are independent of control or pressure by Administration in White House.

But President-elect Kennedy, shortly after he takes office Jan. 20, will have a chance to set future pattern of business regulation through appointment of men whose philosophies he approves.

▶APPOINTMENTS TO WATCH:

National Labor Relations Board.
Federal Trade Commission.
Federal Communications Commission.
Interstate Commerce Commission.

President-elect Kennedy will name one member each to above agencies.

He'll name two members to five-member Federal Power Commission.

▶WILL SUPREME COURT SWING more toward liberalism--or conservatism?

Clues to future decisions may come in early months ahead.

Two of Court's justices are expected to retire--Felix Frankfurter and Hugo Black.

Court now is often split with five to four decisions.

Presidential appointments could tip scales toward liberal side.

Personal philosophies of new justices will provide first important hint to future course of judicial decisions.

▶TRENDS: Engineers estimate $15,000 cost for putting each pound of satellite payload into 300-mile-high orbit. New vehicle may cut cost to $600 a pound....

U. S., only one of world's 117 nations, has six per cent of world's population, consumes third of world's output of goods and services, produces half the world's energy output....

Labor unions average one strike every four days at Air Force missile bases for 12 months. Total of 78,400 man-days lost puts construction of missile bases three to six months behind schedule.

▶CAN YOU NAME America's best foreign customers?

Some changes are taking place you'll want to know about.

Here's a test to try your skill.

Name, in order of importance among the countries listed below, nations you think buy most U. S. goods.

____Mexico	____India
____Italy	____West Germany
____United Kingdom	____France
____Venezuela	____Japan
____Canada	____Australia

Now turn to page 63.

There you'll find answers--plus timely, useful, important information on foreign trade trends.

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Business opinion:

Ways to strengthen our dollar

Traveling in Europe this year I got the impression in talking with financial people of several countries that their primary concern was that we halt the rising cumulative balance against us.

They realize we cannot eliminate further imbalance immediately, but, if we show we are cognizant of the problem by making a beginning toward corrective measures, it would insure maintenance of confidence in the dollar. Although no western European nation would arbitrarily take any steps to embarrass us, that does not mean that they would not run if they concluded that it was in their self-interest to do so.

Obviously, one of the things that could be done without too much damage to the export picture would be a gradual reduction in the supporting civilian group. It may be true that our (military) installations in Germany have a major restraining value, but it would appear that a hard core of technicians, Army intelligence people, and knowledgeable officers would be more effective and less expensive. Also, we might take another look at some of the handouts to so-called underdeveloped countries, such as Laos, Cambodia and the like, where the multilateral effects are not nearly as important to us as they are elsewhere.

While our trade balance is still on the credit side, we are losing ground in manufactured products.

Corrective measures in the tax treatment of depreciation would result in a considerable expansion in replacement of machine tools and equipment. This would help our own economy and in time would improve our competitive position, particularly as against those countries which have more efficient modern equipment.

RICHARD WAGNER
Chairman of the Board
Champlin Oil & Refining Co.
Chicago, Ill.

►*Since Mr. Wagner's letter was written, President Eisenhower has taken steps to reduce the deficit in*



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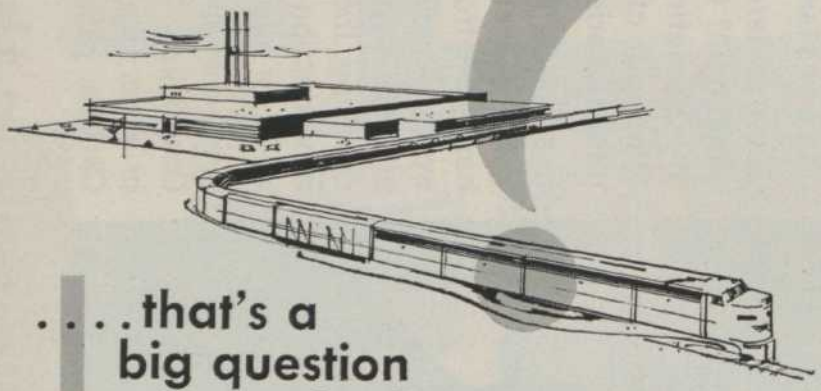
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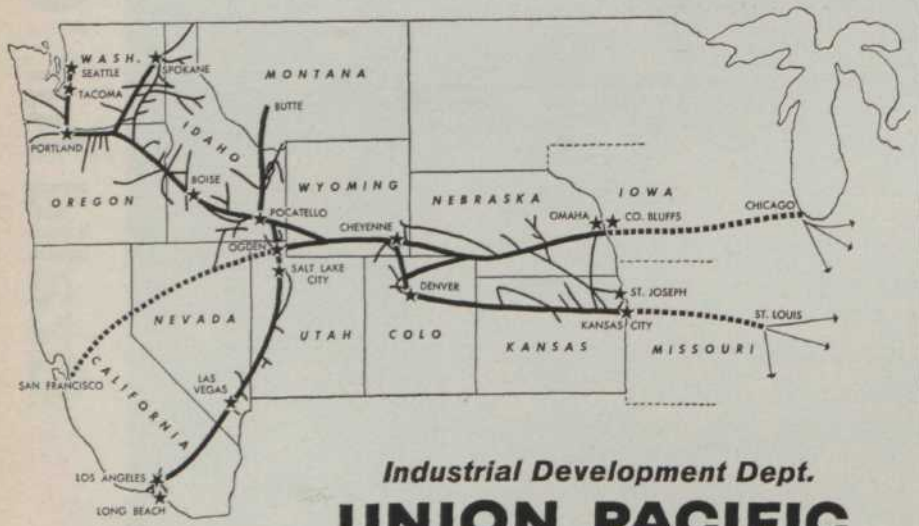
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our balance of payments. But the problem will continue for the Kennedy Administration.

Is urban "aid" sound?

In NATION'S BUSINESS for October, under the subtitle "Construction" your writer ends his comments with these words concerning federal subsidies for local public housing:

"Trends in costs and revenues—coupled with the fact that the program commits the federal government to payments for as long as 40 years—are generating tremendous future obligations."

I am deeply concerned with this statement since we in Santa Clara are about to enter a contract with the federal government for an urban renewal project which will be subsidized in part with federal funds under the Housing Act of 1949.

The problems confronting the people of Santa Clara and the apparent pitfalls inherent in such a program are serious and varied.

Admitted inadequacies of urban renewal legislation and the waste and delays encountered in the programs were quite evident in the various statements made before the House Subcommittee on Housing during the hearings of May 23 through May 27.

After studying the transcript of these hearings, it is doubtful in my mind that urban renewal will be a satisfactory solution to our problem.

EDWARD F. GALLEGOS
Santa Clara, Calif.

You can't win 'em all . . .

I have not read your magazines upon arrival . . . They just go to waste here and are discarded . . . I have a limited time for publications and the ones that I prefer I read . . .

I sincerely cannot see where this publication can benefit us in any way.

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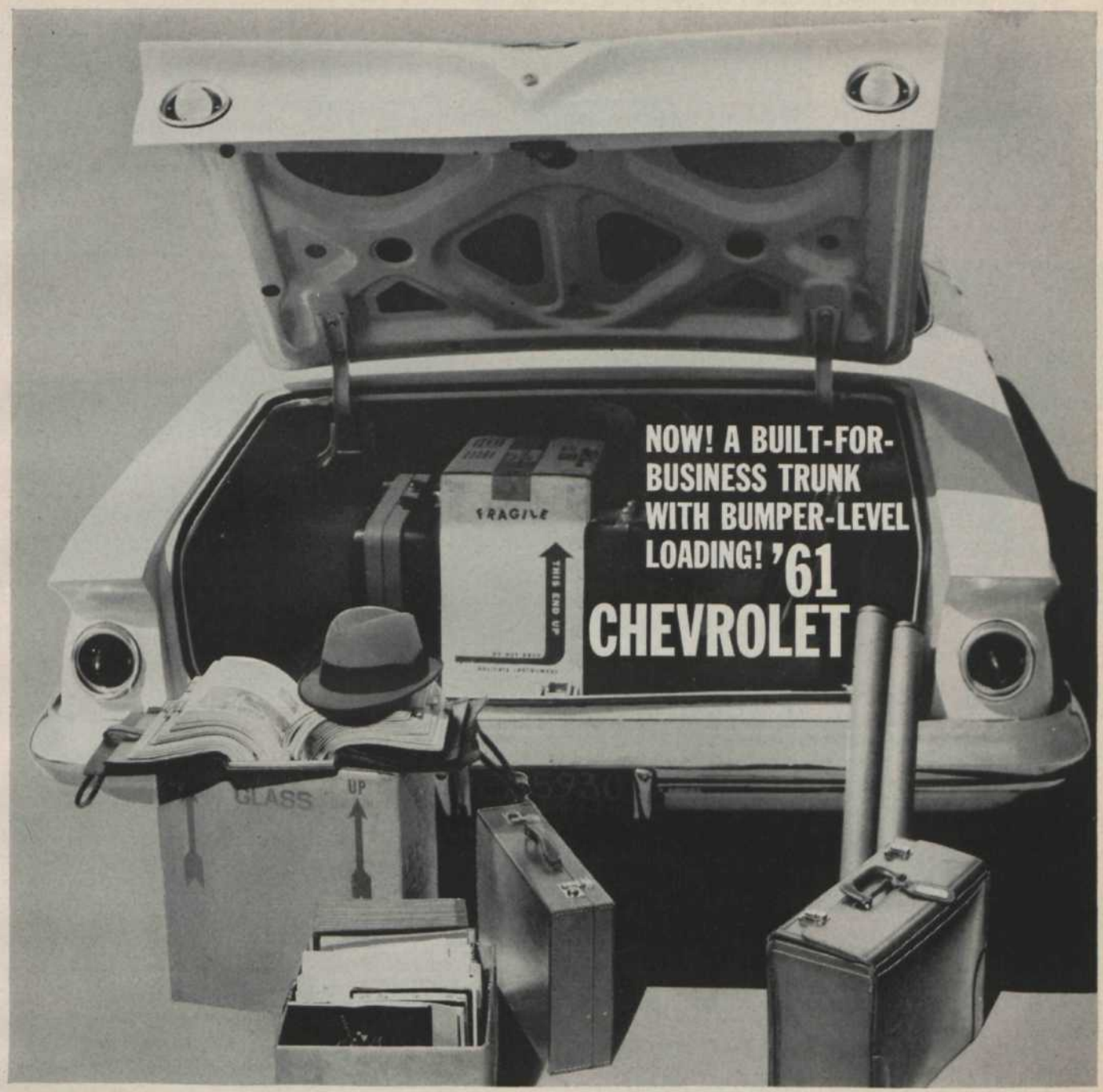
. . . but many are won

Your magazine is one of the few that is read cover to cover with great enthusiasm. It has been a great help to me.

Keep up the good work.

GLENDON C. GREENIA
Contract Administrator
Scott Aviation Corporation
New York, N. Y.

"How to Sell Today" [October] is one of the best and most farsighted analyses of the salesman



NOW! A BUILT-FOR-BUSINESS TRUNK WITH BUMPER-LEVEL LOADING! '61 CHEVROLET



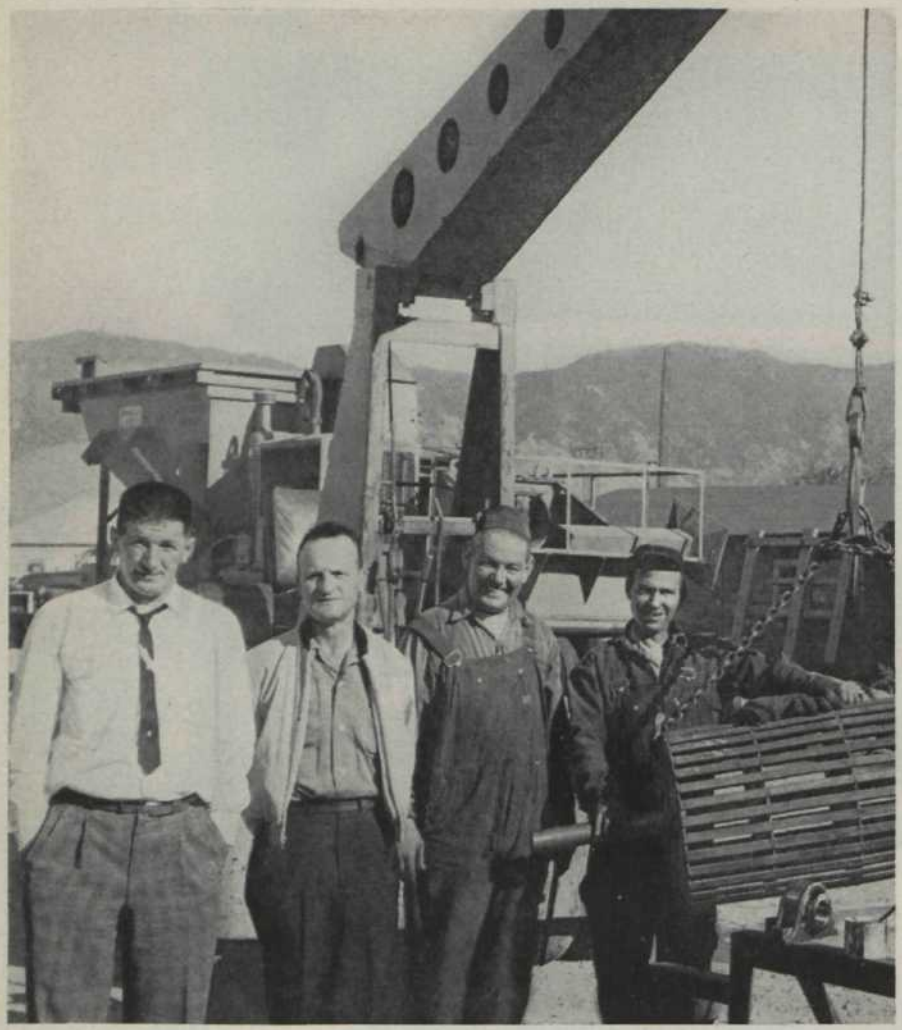
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You'll find that the rest of this Chevy for '61 makes every bit as good sense as the trunk. Those easier-to-get-into door openings, for instance, that are as much as half a foot wider. The higher, more comfortable seats. And the extra leg room in the front—plus greater foot room in the back. These are just a few of the many built-for-business benefits that will help you get more out of your Chevy from the time you buy it till the day you trade it in. See your dealer soon for all the details. . . . Chevrolet Division of General Motors, Detroit 2, Michigan.

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and his duties that we have ever read.

However, we hasten to add that it is in keeping with the high standards of your most excellent magazine, which we would not be without.

ED ESTES
President
Ed Estes Company, Inc.
Dallas, Tex.

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BAILEY E. PRICE
Sales Manager
National Electric Coil
Columbus, Ohio

"How to Sell Today" is a splendid article I would like to give to the salesmen of our company.

T. O. DUFF
Duff Brothers, Inc.
Chattanooga, Tenn.

"First Aid for Worried Workers" [September] is well written and covers many essential points. I believe it will be helpful to keep this article on hand.

D. L. LASZKO
Truck Advertising Department
Ford Motor Company
Dearborn, Mich.

The excellent article, "Take Credit for Hidden Pay," [October] could be used by our agents to help keep their policyholders sold on the value of their Nylic insurance programs.

We are continually impressed with both the quality of your subscribers and the vitality and overall excellence of your editorial policy.

EARLE BOWER
Advertising Assistant
New York Life Insurance Company
New York, N. Y.

Spotting initiative

The article, "Eight Tests Spot Initiative," [March] will be of particular interest to our engineering supervisors.

May we reprint the article for distribution within our Fort Worth plant?

R. H. HUGGINS
Director of Engineering Training
Convair
Fort Worth, Tex.

▶*Permission granted.*

NB on recommended list

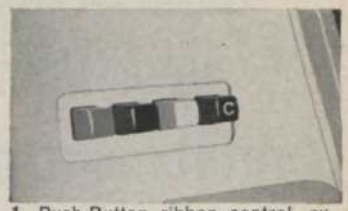
May we reprint "Test Your Sense of Closure," [January 1959]? This article is on a list of reference material recommended to our management personnel in preparation for a managers' meeting scheduled for the latter part of this month.

VINCENT C. CROWLEY
Assistant to the President
Crowley's Milk Company, Inc.
Binghamton, N. Y.

▶*Permission granted.*

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WATCH THIS ISSUE

Unions will step up drive for federalized injury pay

COMPENSATION for work injuries will be an important issue in the new Congress and in most state legislatures which convene next month.

Whatever the outcome, employer costs for workmen's compensation are likely to rise as a result of double-barreled pressure on the states to improve benefits.

Labor union officials really want federal control of workmen's compensation and are using the problems of atomic radiation injuries as a lever to get it. But at the same time they will keep pushing for higher benefits and wider coverage under state laws.

Business groups want to keep control in the states where it has been for 20 years with adequate safeguards against injury and adequate protection for those who are injured.

Both the cost to employers and the benefits available to injured workers have risen steadily. Over the past 10 years, the cost, paid entirely by employers, has doubled to about $1.5 billion a year. Part of this increase is due to increased employment and expanded coverage.

Statutory benefits—what the state laws allow injured workers—have risen about 30 per cent over the same period, according to the National Council on Compensation Insurance.

The cost of living, on the other hand, has risen only about 21 per cent, or about two thirds as much as available benefits.

Steps are being taken to improve workmen's compensation laws, strengthen state control, and reduce injuries.

The Council of State Governments, an official agency of the states, has an Advisory Committee on Workmen's Compensation drafting a set of principles which can be put into a suggested model law which states might follow.

The committee's work, which will take about a year, can help the states keep their laws abreast of current hazards and economic conditions.

Some observers see the social security law's recent coverage of permanent and total disability as raising a threat of federalization of workmen's compensation through social security. The addition of disability benefits under social security creates some overlapping with workmen's compensation.

All states except three—Alabama, Mississippi and Wyoming—have revised their workmen's compensation laws to protect workers who suffer from radiation injuries.

States are continually improving the level of work-injury benefits, and enlarging the types of benefits and number of workers covered.

The Department of Labor reported at midyear that at least $50 maximum weekly benefits are being paid in 16 states and the District of Columbia. In 14 states maximum weekly benefits range from $40 to $50, and in 20 states from $30 to $40.

(An analysis of all workmen's compensation laws up to this year is available from the U. S. Chamber of Commerce, Washington 6, D. C., for $1. A supplement covering 1960 changes will be published next and will be sent free to those who purchased the 1960 analysis. A summary of this year's changes may be obtained without cost from the Bureau of Labor Standards, U. S. Department of Labor, Washington 25, D. C.)

Unions allege that most states have failed to revise their workmen's compensation laws to take account of new hazards and to keep levels of benefits abreast of rising living costs.

The unions' primary goal is a Federal Workmen's Compensation Act.

Short of a federal law, unions want Congress to fix the minimum standards which states must meet.

The AFL-CIO's view of a good

(continued on page 23)

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INJURY PAY

continued from page 16

workmen's compensation law is one which includes:

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Benefit payments sufficient to maintain a "decent standard of living" for injured workers and their dependents, with maximum weekly benefits not less than two thirds of the state's average weekly wage.

Full coverage of all occupational diseases.

Coverage of diseases caused by atomic radiation.

Full medical benefits for job injuries and diseases.

Continuation of benefits during rehabilitation.

Administration under a state agency rather than the courts.

A monopolistic state compensation fund, such as exists in seven states. (More than 90 per cent of workmen's compensation insurance is now placed with private companies.)

Business groups believe experience will show that the states are capable of keeping their workmen's compensation laws abreast of changing economic conditions and occupational hazards within their respective jurisdictions.

Allied to the issue of federal vs. state responsibility is the fact that the Atomic Energy Commission has begun turning over to the states regulatory control over peaceful uses of atomic energy. This is proceeding under a law passed last year to provide for cooperation between, and clarification of, the responsibilities of federal and state governments in the atomic field.

This will include handling the problems of protection against radiation hazards and exposure.

Unions contend that delegating atomic energy regulation to the states will lead to a deterioration in the protection workers have had against radiation hazards under federal law.

The U. S. Department of Labor is developing safety codes for various industries. The states might enact these codes into laws. Some states already have adopted codes with respect to woodworking and demolition. Demolition codes seem to be particularly timely in view of extensive slum clearance.

The Department hopes to develop about 20 model safety codes which would be applicable to any state and offer them to the states. **END**

Girl spends more

time getting ready to fold—

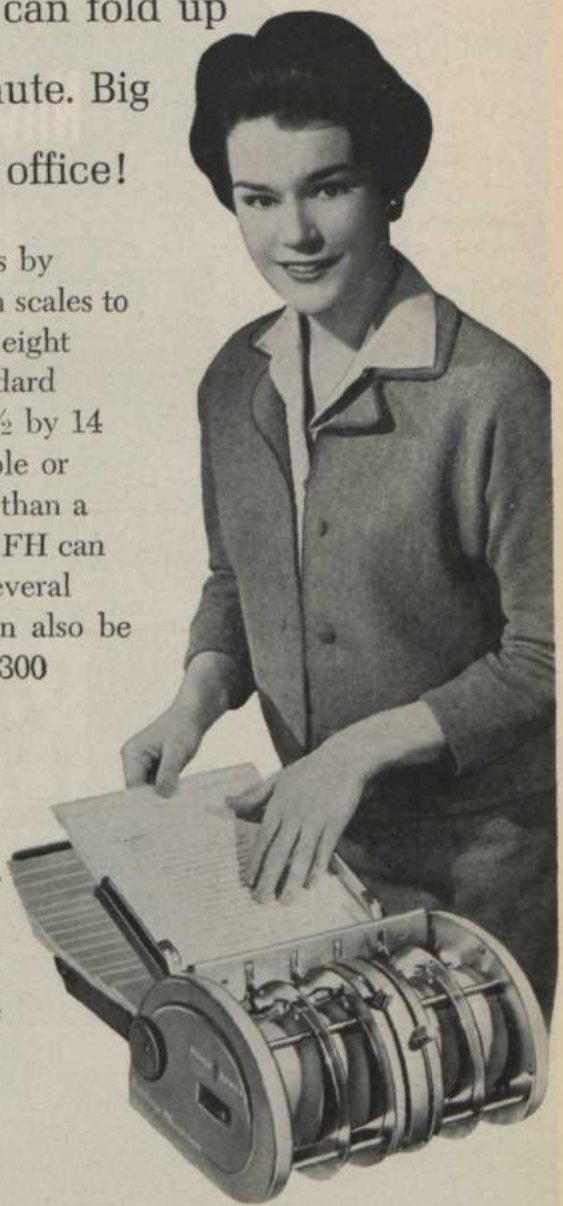
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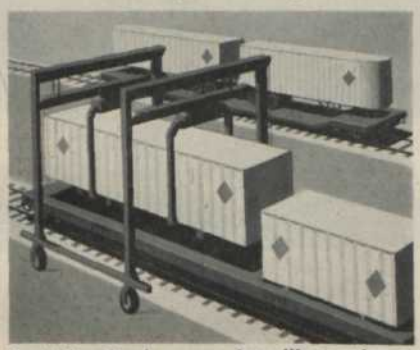
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How Kennedy views nation's mood

BY EDWARD T. FOLLIARD

THE FACT that they have been painting the White House this fall has no political significance. It is something that happens every four years at about this time. But the tourists and the other passersby have had a romantic notion about the paint job; they like to think of it as a courtesy being shown by President Eisenhower to President-elect Kennedy.

Anyway, the atmosphere in this capital city is sharply different from what it was the last time the historic old mansion changed hands.

When General Eisenhower was elected in 1952, the American voters seemed to be longing for tranquility, for a breathing spell. They had been through a grueling two decades of crisis and excitement, a period that included the depression, the reforms of the New Deal and the Fair Deal, World War II and the Korean war. To anyone who traveled around the United States in that '52 campaign, it was evident that the people were tired and wanted a chance to relax. In the slang of the time, they had had it.

Prof. Walter Johnson of the University of Chicago has well described the mood in his book, "1600 Pennsylvania Avenue." He says that General Eisenhower was able to tune in on the deepest instincts of a people who, at that stage in their history, "desired pause, comfort and repose."

And what did the American people vote for or against last month? Was it against pause, comfort and repose? The answer has to be, yes, they did—that is, if the election had any meaning at all.

The chances are that not one voter in 50,000 ever read the 1960 Democratic platform, with its glittering promises for just about everybody. But the voters almost certainly did hear, at one time or another, Senator Kennedy's battle cry: "It's time for America to start moving again."

Also, they must have heard him say that life was not going to be easy in the United States if he should be elected President—that the election was between the "contented" and the "concerned."

In the tumult of the campaign, the President-elect was accused of trying to outdo Vice President Richard M. Nixon in the matter of promises. True, he did promise to do a better job of strengthening America's armed forces and of expanding the economy; he did promise to do more for the unemployed in the distressed areas and for the elderly in need of medical care.

All these things he promised. But he also told the voters bluntly that they should not expect a life of ease in a Kennedy Administration. In his first major speech after winning the Democratic nomination, the speech in which he accepted the nomination at Los Angeles on July 15, he said this of his New Frontier:



Senator Kennedy, postconvention underdog, sensed a widespread discontent in America

"It sums up not what I intend to offer the American people, but what I intend to ask of them. It appeals to their pride, not their pocketbook. It holds out the promise of more sacrifice instead of more security."

This was a bold pronouncement. Adlai E. Steven-

son, in accepting the Democratic nomination in 1952, had said something in the same tone. He talked of "sacrifice," of "no gains without pains," of "a long, patient, costly struggle"—and he was snowed under.

What led Senator Kennedy to think that he could talk about sacrifice and get away with it in 1960 when the same kind of talk repelled the voters in 1952?

Before an attempt is made to answer that question it might be well to offer a few observations about the New Englander. The future will determine how he will do as President, but this can be said of him now:



MARBON

Razor-thin margin of election outcome could serve as brake on programs of new President

He is a brilliant politician (using that word in the sense of one skilled in the art of government), mature far beyond his 43 years, possessed of a sharp intelligence and a gift for leadership, and also blessed with good nerves. He is not likely to get rattled in a crisis.

It must be remembered that, after the national conventions in July, Senator Kennedy was regarded as the underdog in the presidential battle. The first postconvention Gallup Poll showed Vice President Nixon ahead 50 to 44 in percentage points, with six per cent undecided. The bookmakers at Las Vegas had Mr. Nixon a two to one favorite.

How did Senator Kennedy bring off his victory?

To begin with, he divined that the American people made a distinction between President Eisenhower and the Eisenhower record; that is, he suspected that while the "I like Ike" sentiment was still strong, there was a vague discontent with the way things were going.

The Massachusetts Democrat sensed that the Soviet Union's feat of putting Sputnik I into orbit on Oct. 4, 1957, had shocked the American people, even though President Eisenhower said at a news conference that he had "not one iota of apprehension." He felt that Sputnik I and the ensuing Russian triumphs in space caused a good deal of worry over what came to be called the "missile gap." Then there was the Soviet Union's progress in the economic field. Nobody mentioned it in the campaign, but the first warning about this came from Allen W. Dulles, director of the Central Intelligence Agency. He sounded the warning in a speech on April 28, 1958, before the Chamber of Commerce of the United States in the Mayflower Hotel in Washington.

The CIA chief said he did not think that Russia had any desire to provoke World War III, and added:

"It is most probable that the fateful battles of the cold war will in the foreseeable future be fought in the economic and subversive areas."

Mr. Dulles later on told a committee of Congress that, if the economies of the Soviet Union and the United States continued to grow at the current rates, the gap between the two would "be dangerously narrowed" by 1970.

• • •

Aside from his ambition to be President—and it was a powerful ambition—Senator Kennedy felt strongly about the Soviet threat in the scientific, military and economic areas. He was determined to bring it all out into the open, even if he should be accused of "downrating America." He was sure that his countrymen could not tolerate the thought of the United States losing its position as the No. 1 nation in the world.

His problem was to get through to the voters and exploit what he was certain was a dissatisfaction in their minds and hearts. He figured out a way to do this even before he won the Democratic nomination: He would challenge Vice President Nixon to debate with him on television.

Newspapers reported that he wanted a TV debate; the networks offered free time, and the Vice President agreed to take him on.

Wherever this reporter traveled in the 1960 campaign, he heard the same story from Democratic professionals. It was to the effect that the first TV debate was the turning point. These pros said that it exploded the idea that Senator Kennedy was simply an immature hero of the bobby-soxers. They said that it persuaded many of the skeptical that he had a good mind and a fine grasp of the issues of the day, and that he would be just as good a man as the Vice President to "stand up to Khrushchev."

Senator Kennedy said over and over in the campaign that he did not expect that "life will be easy for the next President of the United States." It won't be. For one thing he may have trouble on Capitol Hill. The conservative coalition made up of Southern Democrats and Northern Republicans will be stronger than it was in the last Congress, owing to the election of 20 or more additional Republicans.

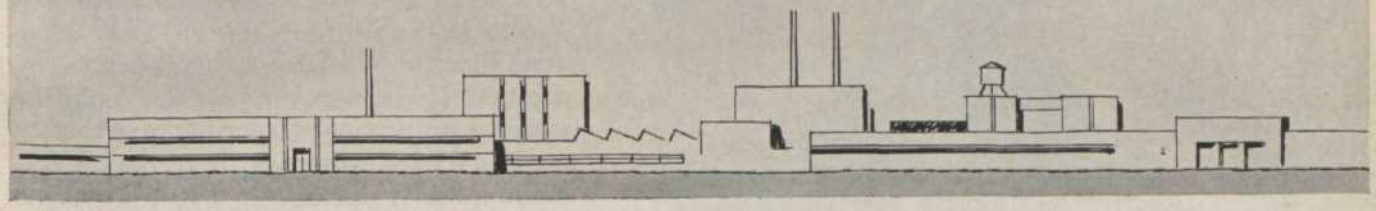
The razor-edge outcome of the election also could serve as a brake on him. The *New York Times*, which supported the President-elect, said it was "a good thing that the election was so close," and added:

"It should serve as a restraining force, as a reminder to the Kennedy Administration that it should proceed with caution and that it has no mandate to embark on drastic changes of policy, either foreign or domestic."

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Limit on Congress' size shifts political leverage

BY FELIX MORLEY

ALL ELECTION BETS, one hopes, have now been duly paid. But for those who came out on the short end there is a way to recoup. Even before the Inauguration one may wager with complete confidence that the Presidential vote in 1964 will be no larger than the one recently cast. Offhand, most people will challenge that assertion.

Admittedly, such a bet would be won on something of a technicality. The popular vote for President last month far exceeded that of 1956. Population growth alone will doubtless insure a further increase in 1964. But the popular vote is in fact not for a Presidential candidate but for the state electors who are pledged to him. And this electoral vote, which will not be formally cast until Dec. 19, is the one that legally elects the President.

• • •

The entire world has now become deeply interested in our gruelling, quadrennial political marathon, in which no loser ever concedes until the winner actually breaks the tape. Even among Americans, however, there are many who do not realize that the Electoral College, which awards the prize, is composed of state delegations equal in number to the total congressional representation of each state.

Since every state has two senators, and at least one member of the House of Representatives, none can have fewer than three electoral votes. This is the number currently possessed by Alaska, Delaware, Hawaii, Nevada, Vermont and Wyoming, the six together having only 18 electors.

At the other end of the scale are the electoral votes of the heavily populated states, at present 45 in the case of New York, 32 each for California and Pennsylvania, 27 for Illinois, 25 for Ohio and 24 for Texas. The total membership of the Electoral College, which never meets as a body, is 537. Of this number, the six states just mentioned provide one third. As was again demonstrated, on Nov. 8, these are the states that determine how a Presidential election goes.

The composition of the Electoral College is specifically defined by the Constitution. But the number of congressmen possessed by any state is variable, under the provision which says: "Representatives shall be apportioned among the several states according to their respective numbers." Originally there was one representative for every 30,000 people and in the cozy little First Congress the House had only 65 members, of whom Virginia provided ten, Massachusetts and Pennsylvania eight each, and Maryland six. The electoral vote of these states was then, of course, two more in each case, since each had then, as now, two senators.



Early congressman was the voice of only 30,000



Today's lawmaker represents some 400,000

As population soared, and as new states brought in more senators, the Electoral College also increased in numbers. Its gain was not proportional because after each census the number of constituents electing a representative was increased. In 1820 there were 235 electoral votes; in 1860 there were 303; in 1900 there were 447 and in 1912 the number reached 531. At that figure it was held constant until this year when, with the grant of statehood to Alaska and Hawaii, six more electors were added by the Congress —three for each new state. Electoral College membership will drop back to 535 with the new apportion-

ment. It will certainly be held at that figure until after the 1970 census, which is what makes the bet suggested above a sure winner.

When a ceiling was placed on the size of the electoral vote it did not mean that population growth had stopped. It meant, on the contrary, so rapid an increase that the number of congressmen, and therefore indirectly the size of the Electoral College, had to be limited. If the original formula of one representative for every 30,000 people had been maintained, the House would now have 6,000 members. A stadium would be needed for its sessions and a mere roll call would take hours.

The present formula for coping with this problem of size was worked out by Congress when the census of 1910 showed the theretofore unprecedented population jump of 16 million in a single decade. The Apportionment Act of 1911 fixed the total membership of the House at the then existing figure of 435, on the valid reasoning that anything above that would be too cumbersome for efficient legislative business. Counting the additional members from Alaska and Hawaii, each congressman now represents an average of 410,000 people, quite a jump from the 30,000 originally designated.

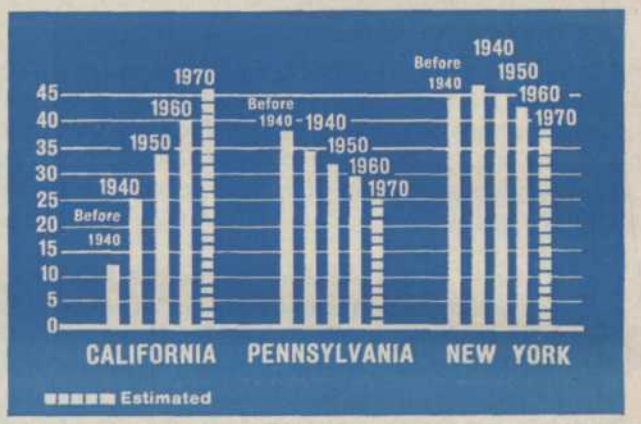
If population growth were uniform in all the states, the limitation on the size of the House would cause no problem. Each state would keep the same number of congressmen, with each of these representing a constantly increasing number of constituents. But since the states are not growing uniformly, the procedure, following each decennial census, is to increase the representation of some and proportionately decrease that of others. Those changes, made automatic by the second Apportionment Act (1929) of course alter the electoral vote of many of the states, either up or down, and therefore are of great political moment. California, for instance, had only 13 electoral votes, as compared with 38 for Pennsylvania and 45 for New York, before the latest Apportionment Act went into effect. By the 1948 election Pennsylvania had sunk to 35, New York had climbed to 47 and California had jumped to 25. The results of the 1950 census confirmed the trend, raising California to a tie with Pennsylvania at 32 electoral votes each, while New York fell back to 45.

This year is the first since 1940 that a Presidential election has coincided with a census year. In such cases the reapportionment is not made until after the November voting, even though the numerical count by states is then known with substantial accuracy. Now the authoritative figures have been sent to the White House by the Census Bureau and, as one of his last official acts, President Eisenhower will inform the Congress how many seats each state will have there from 1962 on.

Nearly half of the 50 states will be affected, with more losers than gainers because some of the latter will increase heavily. California, for instance, will be awarded eight new congressmen, raising its electoral vote to 40—almost equal to New York which will drop back to 43. Florida will gain four electoral votes while Kansas is losing one and Arkansas two. On the whole, the Far West and Florida will gain pronouncedly, while New England, the Middle Atlantic States and Middle West surrender what the growth areas win.

This shift in political power is likely to continue. Projections already made by the Census Bureau indicate that, after its 1970 count, California will have a massive electoral vote of 47, as against 38 for New York and only 25 for Pennsylvania. It is estimated that Florida will then have 16 electoral votes, as many as Massachusetts is now about to cast for John F. Kennedy. Though it may seem most improper to Bostonians, their state, in 1972, will be only one third as important as California to Presidential aspirants.

Changes in congressional representation brought by the 1960 census will not take effect until the 1962

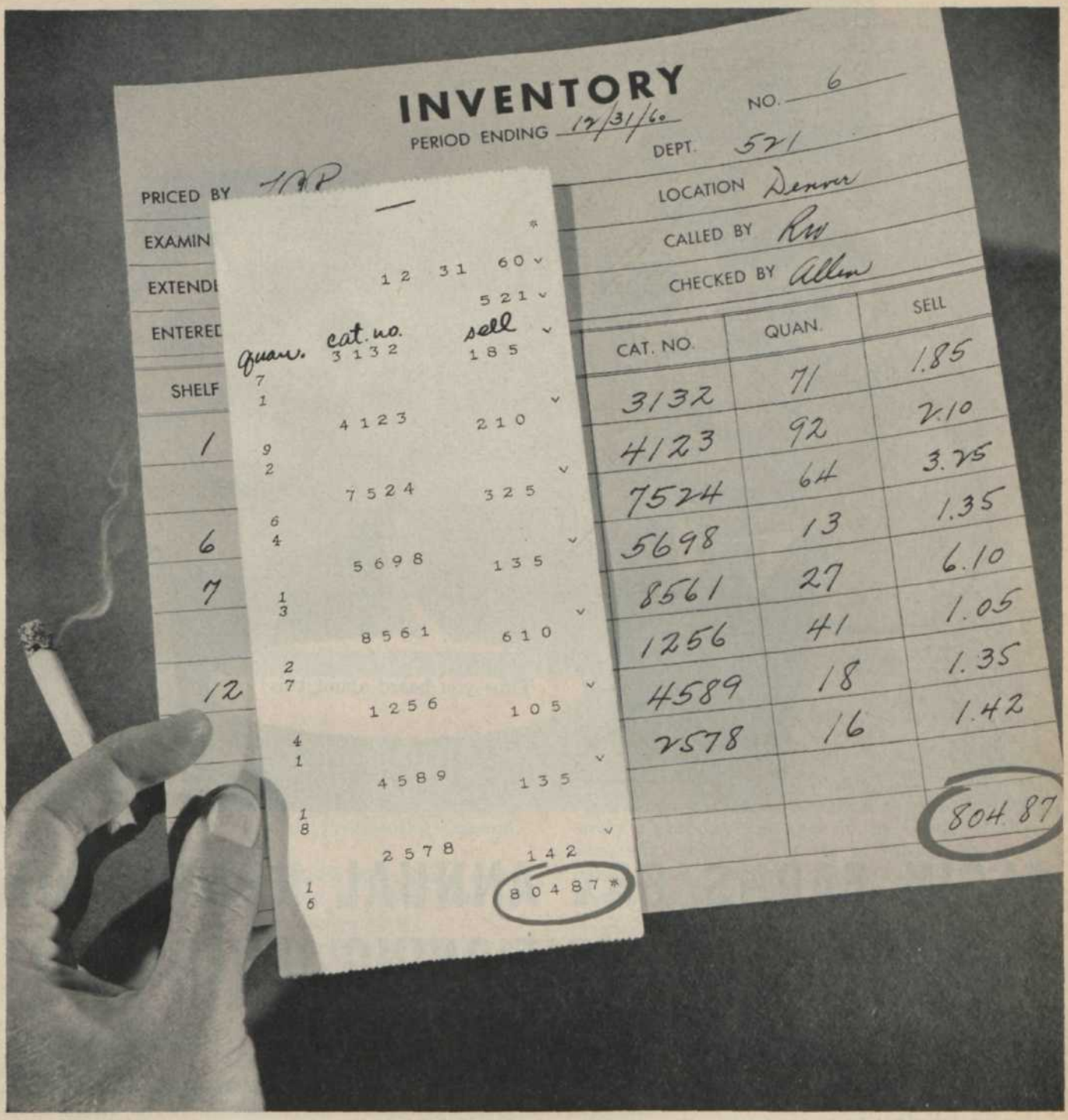


Population shifts, shown by census figures, are changing electoral votes of key states

elections. But they are already harassing the politicians of those states which will either gain or lose. That is because the state legislatures, most of them meeting next month, must modify their congressional districts according to the coming Presidential proclamation. Whichever party is locally in power is right now trying to draw new boundaries in its own interest, meaning as much gerrymandering as public opinion can be expected to tolerate.

The Democratic Administration in California is thus trying to insure that most of its eight new congressional districts will be safely Democratic, while in Arizona there is equal concern to see that its additional congressman will be Republican. Where congressmen must be eliminated, the problem can be really tough. Of the six Arkansas representatives five are veterans with important committee posts. In 1962 this state will be cut to four representatives. Who is to be dropped?

It is sometimes said that if the President were elected by direct popular vote, this decennial headache would be eliminated. That is not true. As long as we have state lines, and as long as the states gain population unevenly, congressional representation will have to be periodically revised. The problem is an inherent part of our federal system.



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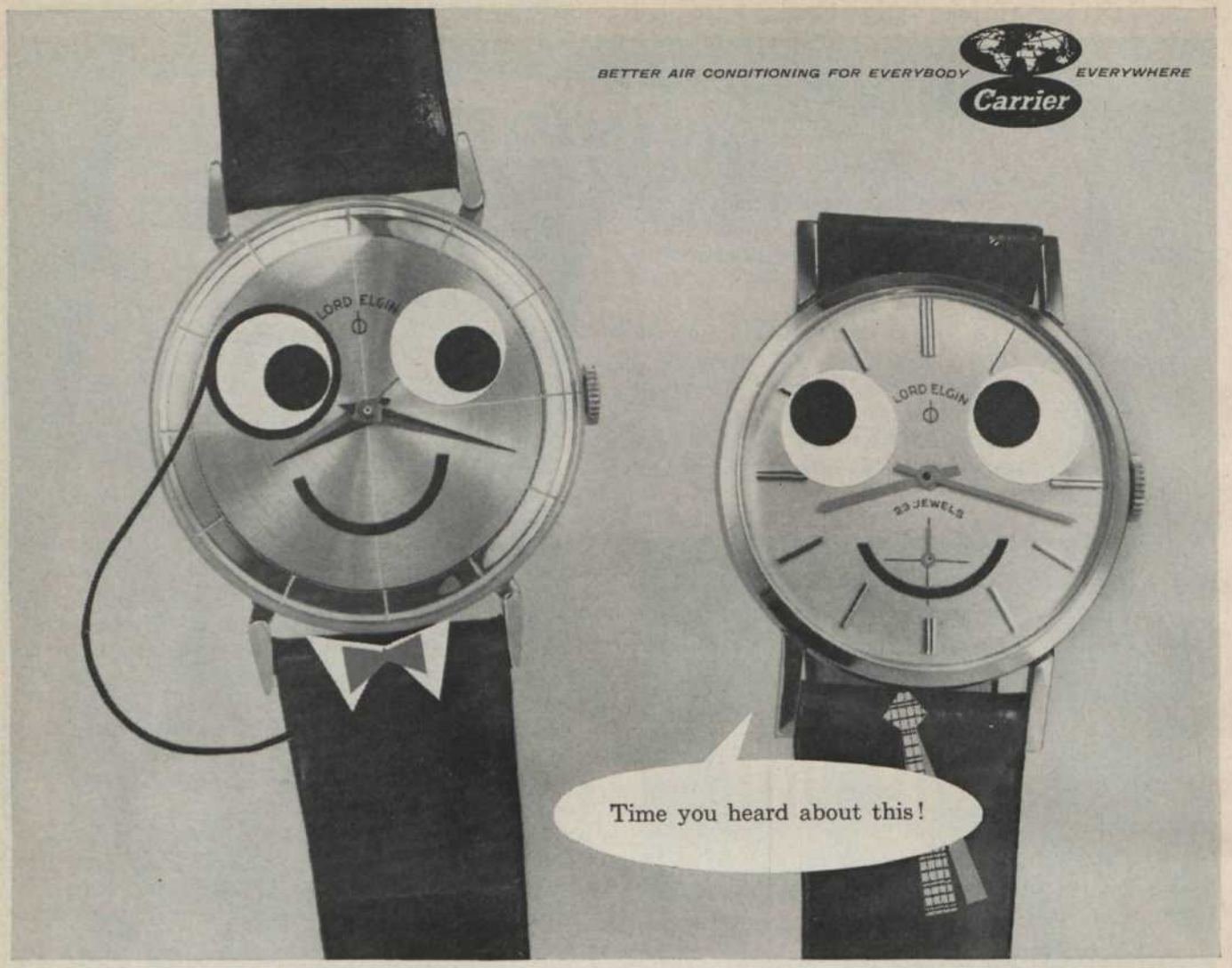
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ELGIN EARNS 68% ANNUAL RETURN ON CARRIER AIR CONDITIONING INVESTMENT

When the 96-year-old Elgin National Watch Company of Elgin, Illinois talks about factory air conditioning, it speaks from long experience. For Elgin is not only the oldest American manufacturer of jeweled watches, but also one of the early industrial users of air conditioning.

When its Carrier system was installed back in 1936, the company had only one object in mind: to provide the controlled atmospheric conditions necessary for the exacting work of producing smaller, more accurate watches. But management quickly discovered an unexpected bonus.

The efficiency of Elgin workers rose during summer months. And this was reflected in substantially lower costs, as is always the case when labor represents a large share of the cost of a product. So more and more Carrier equipment was added over the years.

Today Elgin management credits its air conditioning with a 4% increase in annual productivity or almost three times the 1.5% normally required to cover owning and operating expense. Annual return on investment is 68% in terms of worker efficiency alone.

Many other manufacturers report that Carrier year-round air conditioning is producing similar figures which—significantly—do not vary greatly as the result of the geographical location of plants or the type of products manufactured. The one most important of several factors that determine the profit potential of air conditioning, in almost all cases, is the density of workers in a given plant or plant area.

Where the number of square feet per worker is low, the return on an air conditioning investment will invariably be high. For this reason, the most densely populated departments in a plant should be air conditioned first in any program that calls for the installation of complete air conditioning over a period of years.

There are other yardsticks, too—all of them described in the booklet, "Will factory air conditioning pay off for me?" which we will be glad to send you without obligation. Write for this today. You will find it helpful. Carrier Air Conditioning Company, Syracuse, New York. In Canada: Carrier Air Conditioning Ltd., Toronto.

NEW CONGRESS: WHAT IT WILL DO

How business will fare on laws President-elect wants and gets

SOON AFTER CONGRESS convenes next month it will feel the sharp spurs of Presidential demand, urging a rush to new frontiers.

The new President undoubtedly will create a sense of national urgency by calling for rapid action on an array of new and old legislative ideas.

Congress, mainly willing though a little out of shape for galloping, will respond to the spurs. During 1961, it will probably set in motion legislation intended to:

Raise wages, build public schools, stimulate middle and low-income housing, keep business from taking tax deductions on some expenses, ease credit, revive distressed areas, and raise defense spending. Almost certainly a multimillion dollar budget deficit will occur by the end of the next fiscal year.

Much of what President Kennedy and the Eighty-seventh Congress do in 1961 will be initiated with the short as well as long-term condition of the economy uppermost in mind. Spending in the public, as opposed to private, segment will be the Kennedy key to economic growth. Election campaign promises to rev up our economic growth rate from three to five per cent will be given a new impetus as the lawmakers become increasingly aware that the economy is in a slump.

Mr. Kennedy faces a hard fight on some of his political proposals since the neck-and-neck election vote gave him no clear mandate.

The prospects for final passage of many of the measures will be apparent almost as soon as Congress meets. Democratic liberals in the House of Representatives certainly will try to weaken the potent House Rules Committee, which successfully walled in a host of expensive liberal bills during the Eighty-sixth Congress.

If the make-up or size of the Rules Committee or the rules of the House itself are liberalized, this will open a superhighway for legislation sought by President-elect Kennedy and company. The conservative Republican-southern Democrat coalition probably would often be run over in the process even though the G. O. P. strengthened its members in the House of Representatives. Although conservatives of both parties voting as a bloc outnumber liberals of both parties in the House, Vice President-elect Johnson of Texas as Mr. Kennedy's persuader in Congress could probably command enough party loyalty from enough southern Democrats to swing them to Mr. Kennedy's cause. Even the conservative chairmen of several congressional committees could not sidetrack the expected legislative drive for long, unless they can show the public stands with them.

Accelerated action seems inevitable. First, President-elect Kennedy seems impelled to "move ahead," as he calls it. He has spoken of momentous action in his first 90 days as Chief Executive.

Second, much of the Kennedy line of merchandise was conceived, produced, and packaged but couldn't

quite be sold in the Eighty-sixth Congress. The conservative coalition, the Rules Committee or Presidential veto frustrated the liberals' sales efforts in such fields as minimum wage, area redevelopment, school construction, and housing. But these proposals are on the shelf and ready to go.

New legislative recommendations already are being hammered into shape by Senator Kennedy's aides and will be handed to the Democratic controlled Congress as soon as he is inaugurated.

Here then are predictions for legislative activity during 1961 on these issues of prime importance to businessmen: Labor, taxes and money, business regulation, social legislation, farm and resources, defense and foreign trade, transportation and veterans affairs.

Labor

Members who have voted for measures backed by organized labor in past sessions or were endorsed by union labor in the recent campaign now make up a majority of the Senate and House. President-elect Kennedy has an almost perfect voting record, measured by the yardstick of the AFL-CIO's Committee on Political Education.

With this executive and legislative setup, plus high unemployment and the business slowdown, labor's legislative goals aimed at raising wages, curing unemployment and stimulating consumption seem within their grasp at last.

It is almost certain that Congress will act on legislation to increase the minimum wage under the federal wage and hour law to an eventual $1.25 an hour from the present $1 an hour and extend the coverage and scope of the act. Mr. Kennedy himself is the author of unsuccessful legislation in the last Congress to extend the higher minimum wage to retail, service and other occupations. Business has pointed out that such an increase would surely raise prices generally and cause more unemployment in those businesses which couldn't afford the higher labor costs. These arguments will have to be persuasively voiced to block passage in 1961.

Another Kennedy-sponsored measure, to legalize secondary boycotts at construction sites, is also likely to get quick action in 1961. This legislation would let one union, representing perhaps a small percentage of the labor on a job, shut down the whole building project until the dispute is settled.

Still another Kennedy bill which could get through Congress, particularly with present concern over unemployment, would establish federal standards for state-run unemployment compensation programs. The idea would be to raise jobless pay and lengthen the time over which the unemployed would be paid. Federal standards could mean tighter labor markets and higher unemployment compensation taxes for employers.

The legislative outlook also includes probable passage of a broad-scale measure to provide loans and grants for surplus labor areas and depressed rural counties. So-called depressed areas legislation has come close to winning enactment twice in recent years. Both houses of Congress approved a bill in 1958, but President Eisenhower wouldn't go along with it. He also vetoed a depressed areas bill passed by both chambers this year. Sen. Paul Douglas, Democrat of Illinois, and the major proponent of the legislation, promises to push hard for a bill in 1961.

The Douglas idea is to set up a new agency called the Area Redevelopment Administration to make loans and grants to local governments for public works facilities, presumably to attract new industry, and to make loans to private enterprises to build new plant and equipment. The original aim was to lure new job-producing industry to chronically distressed coal-mining and textile manufacturing sections with high labor surpluses. But in order to attract broad enough support for passage, the legislation was enlarged to include "rural redevelopment areas."

Since previous passage of the legislation has not been by thumping majorities, it may be remodeled to permit still more areas of unemployment or low income to get loans and grants, in hope of building more political support. Most businessmen have argued that government loans don't suddenly make a distressed area attractive, and if this would induce industry to be pirated from one area to another, it would be unfair to unsubsidized areas as well as expensive for taxpayers.

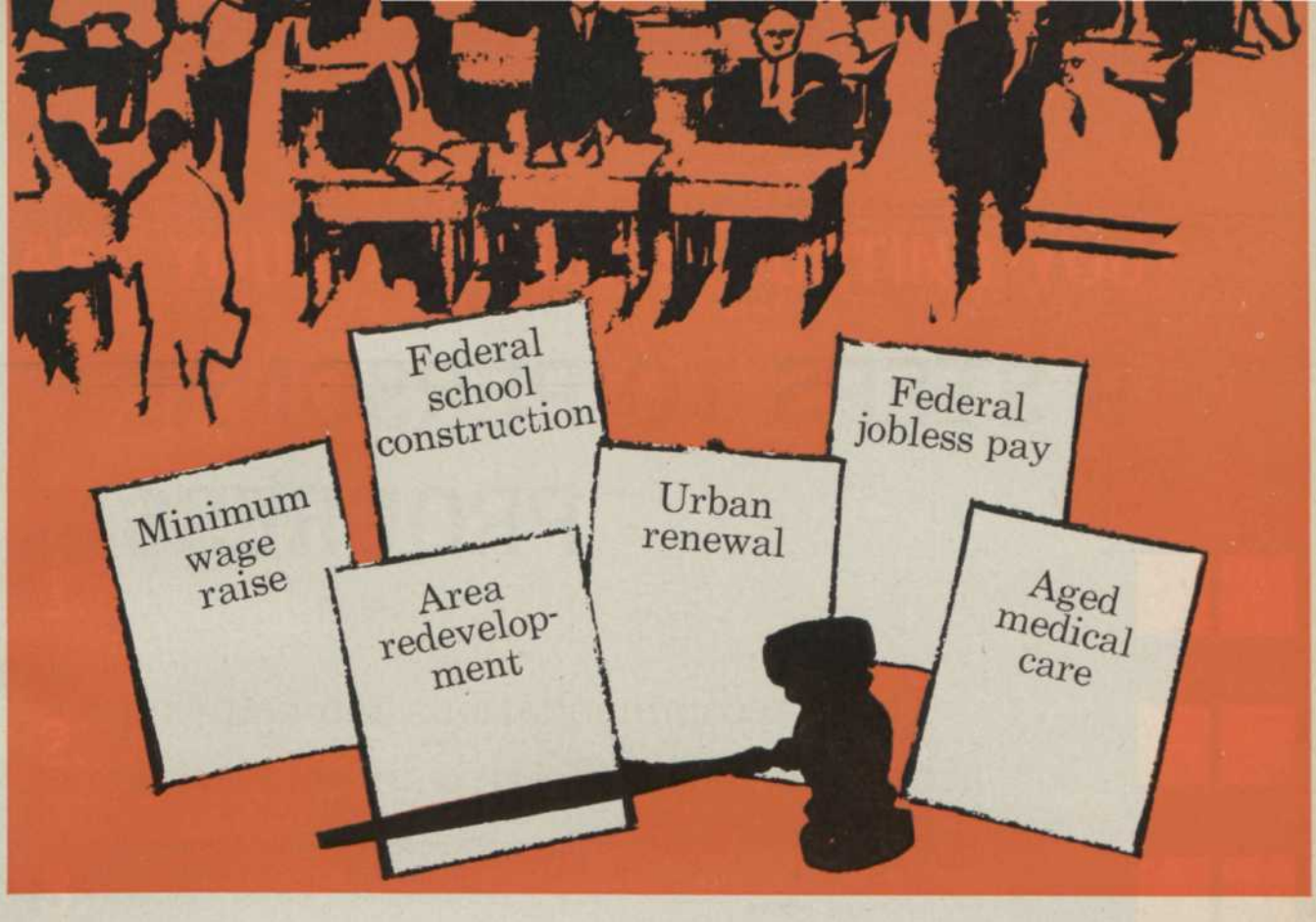
The Democratic platform looks generously at it this way: "The right to a job requires action to create new industry in America's depressed areas of chronic unemployment." Much less likely to pass is labor's goal to repeal state right-to-work laws that ban the union shop.

Taxes and money

"Temporary tax cuts" are promised in the Democratic platform as one weapon against "recessionary trends.

Such cuts might be on an agenda of tax revision which the Kennedy Administration would call "tax reform." But if any tax reduction is proposed to fight a recession, it would probably be aimed at increasing purchasing power and would benefit lower bracket taxpayers most.

However, it's probable no tax cut action will be proposed immediately and independently of other revi-



Many measures packaged and promoted in past Congresses now are on the shelf ready for action

sions. Mr. Kennedy could well propose broad-stroke tax changes in 1961, which wouldn't be effective until the following year. The hope would be that in 1962 the budget picture would be getting brighter because of a stronger economy and rising revenues.

The most probable tax changes include:

- Tightening the definition of tax deductions for ordinary and necessary business expenses, which the Democratic platform charges in some cases have reached "scandalous proportions."
- Eliminating the $50 exclusion and the four per cent tax credit on dividend income from stocks.
- Restricting the capital gains and estate tax provisions to get more tax revenues.
- Withholding of taxes on dividend and interest income.
- Changing the tax-exempt status of state and local bonds.
- Reducing levies on lower income taxpayers.
- Reducing the depletion allowance permitted gas, oil, and some other industries.
- Permitting faster depreciation for capital investment so the cost of plant and equipment could be written off more quickly.

Only the last recommendation could help increase private productive capacity. If the Kennedy Administration proposes such a tax revision program, it's anybody's guess how far it could get in Congress. Both the House Ways and Means and Senate Finance Committees, which handle tax legislation, lean toward more conservative views. They feel that rate reduction —especially in the higher brackets—would have to be a major component of any real reform to achieve economic growth.

Most businessmen would like to see liberalized depreciation rules, but they also would be eager for rate reduction for corporations and higher bracket taxpayers instead of changes to eliminate provisions that encourage investment.

President-elect Kennedy's expressed intention to lower interest rates and provide easier credit, by happy coincidence, would be what most economists and monetary experts would do in a recession. The real question is: How far would he go and for how long?

To switch to easy money as a matter of regular policy would surely necessitate a change in the leadership of the Federal Reserve Board or new legislation to force different Federal Reserve policy.

However, Mr. Kennedy *(continued on page 86)*

9 STEPS TO PERSONAL PROGRESS

These recommendations can help you become more effective in your work

EVERY MAN who aspires to a higher position will be helped or impeded by the effect his attitudes have on his performance and on the way he impresses others.

It is important to have positive, open-minded attitudes. Nine of the most essential are:

- The ability to question the existing order and suggest constructive changes.
- Flexibility.
- A positive approach to problems.
- A willingness to learn from others.
- Courtesy and modesty.
- Self-respect.
- Willingness to give credit.
- A realistic outlook.
- Seeing things from the other fellow's point of view.

Let's examine each of these key attitudes in turn:

Be constructively critical

Ideas come most readily to those who have searching minds. Unless you question the way things are now being done, you are not likely to think of ways to do them better.

This revealing excerpt from a manager's evaluation report on a subordinate illustrates the point:

"Fred is hard-working but never offers a new idea or suggestion—not even a bad one. There is a place for him in our organization but not much higher than his present level."

This does not tell us whether Fred has an inquiring attitude. But it gives us reason to suspect he doesn't. Even if we assume that shyness or modesty makes him refrain from speaking out frequently, there is equal reason to believe he would express his ideas once in a while—if not orally, then in writing; if not in a conference, then in private; if not unsolicited, then in response to questions that invite opinions.

An endless stream of written reports about or vocal objections to present methods does not indicate an inquiring attitude. The other way around, in fact. Continuing silent *(continued on page 78)*

ARE YOUR ATTITUDES HURTING YOU?

Your answers to these 10 questions will give you some indication of your present attitudes. For interpretations of your answers, see page 78.

	YES	NO
1. Can you recall any specific experiences in which you changed your way of doing something as a result of some personal criticism you received?		
2. If you were asked today for recommendations to improve your department's performance, would you have any?		
3. Do you regard your self-respect as more important than a raise in salary?		
4. If your boss praised your performance on some task, would you say anything to him about others who may have helped?		
5. Do you know anything about the interests or avocations of your subordinates and fellow workers?		
6. Do you know anything about the educational and professional background of the head of your company, division, or department?		
7. If you were promoted to a new position, would you have any interest in the opinions of your predecessor?		
8. Do you feel keenly disappointed if you do not receive any praise for a job that you thought you did well?		
9. Do you keep telling yourself that everything is going well in your job even when you know that isn't so?		
10. Do you find yourself criticizing subordinates in the presence of their associates?		

What you'd be doing in RUSSIA

Think you have problems? Take a look at those of industrial managers in USSR



Soviet manager's performance is watched by communist party cells like this within plant

THE AMERICAN businessman whose working day frequently seems to be merely one difficult decision after another may take comfort by comparing his lot with that of his Russian contemporary.

The Russian businessman also faces problems but his success in solving them is not measured by a balance sheet.

The test of his effort is how well it fits into a preconceived plan drawn up in Moscow.

This picture of a manager's life in an industrial structure owned and operated by the state emerges from personal observations during a tour of Russian cities and plants.

If you are the owner of a business, a company executive or a professional manager, the chances are that you would be in charge of a production plant in the USSR.

As plant manager you would be assured that you were the supreme authority. The powers you possessed would be numerous but routine.

You would handle the working capital that was assigned to your plant, maintain a bank account, pay wages, sign contracts with supplier-plants as well as with the government enterprises that buy your product. You would have the right to defend your plant in court and bring suits against other plants. If you negotiated a short-term loan from the state bank, responsibility for repayment would rest entirely with you.

You would handle all these things competently because only men of impressive competence become managers in Russia—but this very competence would be held against you.

In the Soviet system professional ability is not enough. You would be

suspect precisely because you are a professional. The professional manager is not trusted to understand the political environment in which he must work. The Kremlin bosses know that the capable manager can function either as an effective instrument or as a disruptive force. Since there is some doubt as to how you might use the valuable economic assets you would manage, the men at the top would control your operations at every step.

You would find yourself, therefore, with:

- No personal control over what you produce, where you sell it, or its price.
- Little control over your staff, picked for you by your superiors.
- Constant difficulties in obtaining supplies to fulfill or overfulfill state-set production quotas.
- Fierce pressure from above to outproduce the free world and adopt advanced technology.

Specifically, there are two layers of authority between the plant manager and the political leadership at the top in the Soviet Union. Your immediate superiors would be supervisors from the Regional Economic Council. They are essentially executive officers, rather than initiators of economic policy. Policy decisions are made by the next higher layer, the planners—who act as a substitute for the operation of supply and demand. The planners are in direct communication with the top rulers who decide what line the economy is to take. They allocate the available resources according to their yardstick of strategic economic power.

Two objectives have guided the Soviet economy for 43 years.

First, a maximum of economic resources, capital, materials, and labor must be pumped into the heavy industrial sector to keep it moving ahead at a faster pace.

Second, the consumer industry, which often would use the same materials, must be held in check. As far as possible, this must be done without undermining public morale.

How system works

In carrying out this grand design, the Soviet authorities tell the plant manager exactly what to do. The master plan, drawn up in Moscow, establishes the size of his labor force and fixes the maximum ruble total of his wage bill. Wage scales, job categories, premium and overtime pay rates are also predetermined.

Nor does the manager himself decide whether, when, or by how much his plant will expand. This function is fulfilled by the investment portion of the plan.

When the manager receives funds for expanding the plant's capacity, the allocation comes in the form of an interest-free grant. The Marxist economist sees nothing strange in such a practice. The state, as the absentee owner, is merely using its own savings to expand its own industrial plant. An American economist asked the manager of a large Russian plant, "How do you decide whether to introduce new production equipment?"

The answer: "If the new equipment is accepted by the competent authorities above me as being more advanced, and approved for production, this is all the reason I need."

Because a planned economy must leave nothing to chance, state intervention is total. Thus, higher authorities determine the prices at which products will be sold. Anything the manager buys from a supplier-plant also comes to him—when he can get it—at a price fixed by the planning agency.

The economic planners also decide in advance what the manager's cost of production will be during the year. He is thus given a norm for his use of materials, accessories, fuel, electricity, labor.

Since the planners know all costs, the number of units to be produced, and the sale price of the final product, they also hand the manager a balance sheet showing the amount of profit he is expected to earn by the end of the year.

The planners thus serve notice on the Soviet plant manager that he is not paid to think. All he is expected to do is apply his energy and ingenuity to matching or exceeding the detailed scheme laid out for him. In return, he will be either rewarded or punished.

There are generous bonuses for overproduction. But the punishments for failure are harsh. Poor performance can bring sudden removal, the collapse of a career, and sometimes, charges of economic crime against the state.

The authority above him also appoints his immediate subordinates. Usually this means the chief engineer, chief accountant, chief designer, chief mechanic, and the chief of quality control.

We asked the executives of one of the regional economic councils why such control was necessary.

"For one thing," he answered,

(continued on page 94)

PHOTOS PIX, INC.



Before making changes, the Russian manager must consult plant committees, including trade union representatives

UNION JOB DEMANDS DRIVE COSTS UP

New proposals being pushed tend to undermine business progress

CHANGING business practices and economic conditions are creating new union demands and shifting the emphasis on old ones. The effect is to hamper business efforts to do a better job at less cost.

Individual unions are pressing with greater vigor demands which they think will preserve the jobs of their members and, coincidentally, preserve their membership and dues payments.

Whole communities—as well as employers and workers—are affected.

Hit directly are employers who:

- Are trying to reduce costs and improve efficiency through increased use of labor-saving devices and automation.
- Want to subcontract or farm out work to get it done better, quicker or at less cost.
- Want to move a business to another locality to get closer to the market or source of materials; to save labor, transportation or other costs, or for other valid reasons.
- Want to shift the volume of business from one branch to another of a multibranch operation.

Unions are also trying to make business investments a question for collective bargaining and have investments used to solve social problems, over which employers have always shown concern on their own initiative. Under collective bargaining, however, more responsibility for social problems would be attached to and forced on management.

This is what's happening:

Automation

Unions want workers who might be displaced protected by wider seniority rights, more liberally compensated for job loss or retrained for new jobs.

The Oil Workers Union won an agreement under which employes bumped to lower paying jobs would keep their old pay for at least a year and would have opportunities to fill automated jobs. The company agreed to give the union advance notice of proposed installation of automated processes and work with the union in minimizing the impact.

For employes who face possible layoff, General Electric Company offers retraining inside or outside the company and help in paying the cost.

Some companies, including Armour & Co., meat packers, are establishing funds to be used for retraining.

West Coast dock workers got stevedoring companies to put $5 million a year for six years into an "automation" fund in exchange for the right to change work rules which hinder the introduction of labor-saving machinery for handling cargo.

The employes also got the right to determine the size and number of work gangs and the weight of sling loads handled by machines.

The introduction of technological changes at an accelerated rate is changing some traditional collective bargaining concepts. The problem is to make such changes in a humane way that will neither treat the employe as a robot nor tie the employer to antiquated rules and methods, according to Joseph F. Finnegan, director of the Federal Mediation and Conciliation Service.

He says management cannot abruptly introduce changes which throw people out of work without asking for and getting plenty of grief. The need, he says, is to get the worker to understand the employer's position and to get the employer to understand the worker's fear of the unknown.

Shorter workweek

Two of the country's larger unions—the United Steelworkers and Machinists Union—have made a shorter workweek (with no cut in pay) their major bargaining objectives. The steel workers want a 32-hour week and the machinists a 30-hour week.

This is not new, but a proposal of the Retail Clerks International Association is. This union has proposed to the Joint Economic Committee of Congress drastic legislation to curb moonlighting—the practice of holding two jobs—and thus spread the work. It urges that legislation be passed to put the 40-hour week on an individual basis. After an individual had worked 40 hours in a week he would get time-and-a-half overtime pay for any additional hours worked regardless of how many employers employed him.

For example, if he worked 30 hours for one employer and 30 for another, the second employer would have to pay him time and a half for the last 20 hours.

The AFL-CIO favors a reduction of the 40-hour week to 35 hours under the Fair Labor Standards Act, commonly called the wage-hour or minimum wage law.

Subcontracting

This was an important issue in the strike against the Pennsylvania Railroad. In the settlement, the railroad preserved its right to subcontract rebuilding of locomotives or other work to outsiders. It agreed that it would not do this when its own facilities and manpower were adequate to do the work unless an

outside company could do it at lower cost.

Subcontracting has been an issue in the basic steel and other mass production industries which cannot efficiently maintain an extra and qualified work force to handle major repairs, construction or other intermittent work.

The automobile industry, for instance, contracts out considerable work during model changes. If the companies had to maintain work forces large enough to handle peak work loads, many would be out of work most of the time.

A survey by the Bureau of National Affairs, a labor-management relations service, reveals that 19 per cent of 400 representative labor contracts it studied include restrictions on management's right to subcontract. The restrictions are twice as prevalent in nonmanufacturing companies (26 per cent) as in manufacturing firms (13 per cent).

Contract clauses on letting work out to others usually are subject to interpretation by arbitrators, whose decision more often than not differs from what the employer intended when he agreed to the clause.

Donald A. Crawford, of Philadelphia, a professional arbitrator, says clauses defining management's authority to contract out can be placed in four main categories:

1. The weakest limitation on contracting out is a clause in which the employer simply agrees to inform the union and to discuss work to be contracted out.

2. Strongest prohibition is in this type of clause: "There shall be no regular work performed by any employe not covered by the contract except in emergencies or when work must be performed for which regular employes are not qualified."

3. More common is the limitation of reasonableness: The company agrees to use its own employes when possible.

4. The most common clause prohibits contracting out of work when the company's own employes are on layoff or when layoffs would result.

When bargaining a new contract with a union, do you have to let the union see copies of your subcontracts?

The National Labor Relations Board says you do not. An em-

(continued on page 73)

Look for union resistance to cost-cutting if you try to . . .

Increase use of labor-saving devices and automation to make a better product with less work

Subcontract or farm out work or service to get it done better, quicker or more conveniently

Move your business to another locality to get closer to your markets or source of materials

Shift your volume of business from one branch to another or increase imports from plants abroad

What *business leaders* see ahead

Survey shows what company executives look for next year in sales, jobs, pricing, and other fields

MOST BUSINESSMEN think their own companies will do better in 1961, but they are less hopeful about the prospects for the economy as a whole.

This is revealed by a NATION'S BUSINESS survey of high-ranking executives in a cross section of leading companies in all major industries. Of more than 250 businessmen responding, 113 are company presidents.

Here are some highlights from the survey findings:

- More than 65 per cent expect sales of their own companies in 1961 to show an increase over totals for 1960. Only about eight per cent foresee a drop.
- Almost 60 per cent feel that business in '61 will move along a plateau, with little change from 1960; 21.6 forecast rising business and 17.4 predict a general business slump.
- Fifty per cent say they are less optimistic about the short-range business outlook now than they were at midyear. Only 11 per cent feel more optimistic now than then.

The survey points up a widespread belief that the nation currently is going through an economic readjustment that should run its course by the fourth quarter of 1961. Optimism concerning the longer range prospects for U. S. business continues high and unblunted.

Replies to the survey show that a majority of businessmen do not feel that the election results will significantly affect business in the year ahead. About 35 per cent, however, believe that a Democratic Administration in Washington will produce an adverse effect on the business climate. Fears of increased inflationary government spending and more rampant union power under a Kennedy Administration were voiced frequently. Only a handful of business leaders suggested that a Democratic Administration would help their business or the economy in general.

Here are more details:

Sales forecast

The survey questionnaire asked:

"Do you expect sales of your company in 1961 to increase over 1960, decrease or remain about the same?"

65.2 per cent said they anticipate a sales increase. *(continued on page 48)*

Here's how top executives view the coming year

SALES	**65%** expect higher volume	**26%** believe sales will remain about same as in 1960	**9%** look for a decline
JOBS	**28%** expect to hire more workers	**55%** predict about same employment level	**17%** expect employment to drop
PRICES	**18%** expect to boost their prices	**72%** foresee about same price level	**10%** forecast a price dip
PROFIT* (per dollar of sales)	**32%** say profits will go up	**46.9%** expect about same profits	**20.7%** look for profit decrease
COSTS* (unit production labor costs)	**32.7%** believe costs will mount in '61	**52%** think costs will be about same	**12.5%** anticipate decline in costs

*Because additional answers were given to this question, percentages do not add to 100.

An authoritative report by the staff of the

HOW'S BUSINESS?

today's outlook



AGRICULTURE

The current tapering off in farm land values raises questions as to the future trend. Four major factors warrant consideration:

1. Net farm income per acre—The U. S. Department of Agriculture reports that land values are running almost ten times the net income per acre, compared to a ratio of six to one in 1950-54.

2. Inflationary pressures—A factor in real estate values is the recent moderation of inflationary pressures. If inflationary programs and policies are promoted in the months ahead, interest in investment in farm land as a hedge could increase.

3. Farm enlargement—As long as farmers find larger acreage advantageous for economical operation, this demand will exert a buoyant effect on land values.

4. Government programs—Federal programs will likewise influence the future trend in farm real estate. Programs tending to boost farm income would undoubtedly increase interest in land buying.

CONSTRUCTION

Shortly after Congress convenes next month it will consider legislation of concern to the building and building-finance industries.

These proposals will fall into two general categories. One group will include suggestions to expand federal operations in, and federal controls over, portions of the nation's construction work. The other will include proposals to remove existing market impediments and facilitate the smooth functioning of private building operations.

The first group—dealing with urban renewal, public housing, community facilities (and other subjects)—will probably get the most publicity.

The second group includes proposals to improve the geographical distribution of funds, to reduce the government's role in setting construction wages, to make investment in buildings more feasible. These proposals can be the bases for constructive legislative action.

CREDIT & FINANCE

The Treasury and some other government departments are keeping an eye on the outflow of gold from the United States.

The balance of payments position and the balance of trade are subject to many stimuli. Important among these are the export and import balance, and long and short-term investments.

Enticing foreign interest rates are steadily attracting investment dollars elsewhere. Japan's interest rate is nine per cent; West Germany's, eight per cent; France's, 7.25 per cent, and England's, 6.5 per cent.

The Federal Reserve has stated that exports, imports and capital flows will continue to respond to cyclical changes in demand, both abroad and in the United States. This will make it highly unlikely that adjustment toward equilibrium will be either smooth or continuous.

The gold stock in this country is still large enough to absorb the impact of large changes in current and capital transactions, but underlying forces must continue to work toward adjustment.

Among these forces are rising international liquidity, continuing efforts of U. S. businessmen to improve their competitive position and continuing avoidance of inflation in the United States.

DISTRIBUTION

Combined Christmas and other retail sales this month will come close to $22 billion, or about two per cent above last December.

Reasons for the better showing include:

1. Twenty-six shopping days after Thanksgiving—the largest number since 1955 and two more than 1959.

2. Earlier Christmas sales promotion. Eighty per cent of the retailers surveyed by members of the American Newspaper Publishers Association's Bureau of Advertising planned pre-Thanksgiving promotions.

3. Disposable personal income is almost six per cent above 1959.

4. Consumer expenditures are running four per cent above 1959.

5. Nearly 1.5 million more people are employed now.

6. Personal savings have increased substantially.

7. Christmas Club checks of more than $1.4 billion have gone out to

more than 13 million people. The average check is $110—highest yet. (About a third of the total will be spent on Christmas purchases.)

Retail dollar volume should total $220 billion, about two per cent better than 1959.

FOREIGN TRADE

The foreign trader faces unusual problems arising from distance, language differences, unfamiliar laws and regulations, as well as new products and new trade practices.

Voluntary arbitration is usually to be preferred to delays, hazards, costs and worries of litigation before a new foreign court. Therefore, it is generally wise to include an arbitration clause in every foreign trade agreement, sales contract, agency agreement, order form, distributor's arrangement or other legal document. The use of an arbitration clause in itself often plays a preventive role.

As a principle of conduct, arbitration predates man's written history. The Greeks used it centuries before Christ.

The Foreign Commerce Department of the National Chamber has a new booklet, "The International Trader and International Commercial Arbitration," which outlines basic principles, provides arbitration clauses in common usage, and gives sources for further information.

GOVERNMENT SPENDING

The Bureau of the Budget will be putting the finishing touches on the final Eisenhower budget this month. It now appears the budget will be balanced and that any surplus will be earmarked for reduction of the national debt.

The Administration resents recent inferences that President Eisenhower's last budget will be of the caretaker variety. Although a new President will take office in January, Administration officials insist that this has not conditioned the preparation of the 1962 budget.

The arrival of a new President, however, undoubtedly will affect the timing of the submission of the budget to Congress. Normal practice is for the President to send his budget to Congress in the third week of January. With the Inauguration set for Jan. 20, deadlines have had to be advanced. The result is that the budget probably will go to Congress a week or 10 days earlier than has been customary.

LABOR

Scheduled for an encore when the Eighty-seventh Congress convenes will be the building trades unions bill to permit secondary boycotts at construction sites. A wave of protesting letters stopped the measure—the Kennedy-Thompson bill—in the closing days of the last Congress.

Opponents see the bill as the beginning of the end of Taft-Hartley's effectiveness against unfair labor practices. Building trades unions now account for 30 to 40 per cent of the secondary boycott cases before the National Labor Relations Board. If these unions are permitted to pressure neutrals to help them win labor disputes and organizing drives, other unions soon would demand the same privileges.

In the Eighty-sixth Congress, Senator Kennedy limited the number of witnesses allowed to testify on the boycott bill to the Department of Labor, a union, and four business organizations.

With plenty of time available in the Eighty-seventh Congress, it should be difficult for union-supported congressmen to restrict the hearings.

NATURAL RESOURCES

A federally sponsored National Conference on Water Pollution has been called by the U. S. Department of Health, Education and Welfare for Dec. 12 to 14.

The conference is an outgrowth of a Presidential veto of H.R. 3610, which called for increased grants-in-aid to municipalities for construction of sewage-treatment works, and increased federal control and intervention in state and local enforcement.

In his veto message the President stated, "The federal government can help (with water pollution control), but it should stimulate state and local action rather than provide excuses for inaction . . . which an expanded program under H.R. 3610 would do."

Proposals to the conference from those who demand further congressional action on the problem of water pollution in 1961 will probably include: increased federal grants-in-aid to municipalities; increased federal control and intervention, and accelerated amortization to the industrial polluters.

TAXATION

During the campaign, both candidates accepted the need for change in our depreciation system. The Treasury has been conducting a broad survey of industry practices but has not announced its findings.

Indications are that the response of larger businesses was quite good. The replies of smaller businesses polled by the Small Business Administration may prove less adequate. Nonetheless, it is fairly evident that the Treasury findings will be presented to Congress soon after it convenes. The survey should provide a good springboard from which to launch some form of depreciation reform.

The question of taxation of cooperatives appears to be scheduled for another debate in the Eighty-seventh Congress. It is a touchy subject, but one that Congress must face next year.

TRANSPORTATION

Repeal of the passenger and communication excise taxes is the legislative issue of greatest concern in the transport and communication area, according to a poll conducted by the National Chamber's Transportation and Communication Department.

The poll was submitted to 2,000 transportation and communication executives who are members of the Chamber. Many of them represent state and local chambers of commerce.

High on the list of priority transportation issues, as indicated by the poll, is continuation of the Federal-Aid Highway Program on a pay-as-you-go basis. Many expect diversified ownership of transportation media (common ownership) to be a vital issue in 1961. The poll also revealed considerable opposition to the General Services Administration's intervention in federal and state regulatory agency matters.

Considerable interest was shown in the need for greater uniformity of state laws and administrative practices which affect interstate highway carriers.

LEADERS SEE AHEAD

continued from page 44

26.3 per cent forecast about the same level of sales.

8.5 per cent predicted a sales decrease.

Profits

46.9 per cent of those responding said they expect their profit per dollar of sales in 1961 to remain about the same as this year.

32 per cent foresee a rise.

20.7 per cent expect a decline.

Less than one per cent replied "decline or stay about the same."

Over-all outlook

A question on expectations for the economy in general brought these answers:

57.9 per cent said they expect 1961 business to move on a plateau, with little change from 1960.

21.6 per cent predicted rising business in '61.

17.4 per cent expect a general business decline.

2.3 per cent said they expect a decline in the first half, a rise in the second half.

0.8 per cent forecast a decline beginning in the first quarter and a rise starting in the final quarter of the year.

Predictions of a general business upturn were made by executives in oil, steel, drugs, paper, electric power and several other industries.

Here are a few of the comments by men who look for a general business upswing in 1961:

"Business generally should enjoy a slow growth in 1961,"—executive vice president for operations, oil company.

"A rise by not later than midyear,"—executive vice president, insurance company.

"Production capacities to be increased—a real sales push to be made to market product,"—manufacturing planning director, paper company.

A decline in business was predicted by managers in machinery manufacturing, building products, railroads and privately owned utilities. The president of a Pennsylvania building products company had this to say: "The absence of boom conditions, with attendant excesses, in 1960 suggests that the 1961 readjustment will be mild."

Men who selected the word "plateau" to characterize their expectations represented a wide variety of industries, including retailing, petroleum, publishing, business machines, railroads and electric power.

The spokesman for a major railroad stated: "Business conditions for the past several months indicate an adjustment in the economy is taking place. The extent of this adjustment will pretty well determine how business will fare in 1961. Presently, business indicators give little hope for any substantial pickup within the near future. The adjustment now going on tends to support a more or less plateau economy for several months, although there is some thought that an upward trend will occur toward the fall of 1961."

Election's impact

Executives who commented on the influence which the election would have on business fell into two principal groups: those who didn't feel the election would produce any particular effect, and those who feared detrimental effects growing out of a Democratic Presidential victory.

The assistant to the president of a Midwestern manufacturing company observed: "The prospect of the type of advisers Kennedy has attracted running in and out of the White House is simply appalling."

Many voiced fears of higher taxes, unfavorable labor legislation, increased union power and pressure on wages, and inflationary government spending—as probable outgrowths of a Democratic victory.

Here are some typical comments:

". . . expect labor dictatorship and limited results attainable in reducing featherbedding,"—railroad president.

". . . more government interference—higher raw material costs—more inflation,"—baking company executive.

"We believe that the Democratic party is definitely for cheap money, and we will probably have more in-

How business is cutting costs

COST REDUCTION is a high-priority item on the agenda of most businesses, judging from the intensity of replies to a question in the NATION'S BUSINESS poll.

Executives were asked: "Are you acting to cut costs? If so, please specify some of the cost-cutting actions you are taking."

Methods specified range from increased use of automation to a crackdown on unnecessary travel by company representatives.

Here are a few of the more specific responses. The ideas they cover might be useful to you in your own efforts to hold cost pressures in check.

Utility vice president: "Our most recent effort was establishing the position of cost control coordinator, the holder of which reports directly to the president, who will be assisted by outside consultants, and whose area of responsibility embraces every phase of our work procedures in all locations and departments."

Manufacturing company president: "Reducing operating personnel to minimum. Knocking out any burden or overhead items possible. Emphasizing sales to obtain greater volume which reduces costs."

Department store secretary-treasurer: "Reviewing all jobs to see which can be eliminated."

President of company in automotive field: "Using substitute materials. Installing new machinery. Consolidating plants."

Bank vice president: "Time studies and work floor studies leading to further use of automation and more efficient use of employe time."

Petroleum company economist: "Setting specific objectives for each department. Reducing waste of time and materials. Using automation, including data processing. Giving special attention to personnel needs. 'Suggestion plans' for all employes—have given management many profitable ideas."

Utility president: "The operation of a value-cost group, whose sole function and responsibility is finding better and cheaper ways of conducting our business. Specific actions include expanding the use of electronic equipment in accounting and other operations, reduction of vehicle fleet size, and more economical meter-reading techniques."

Shoe distributor: "Changing locations here and there to get better volume per store."

A number of executives said their companies were taking a close look at all phases of their operations to pinpoint activities which were losing money or yielding an unsatisfactory return. For guidance on the problem of identifying losing operations, read the article beginning on page 66 of this issue of NATION'S BUSINESS.

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LEADERS SEE AHEAD

continued

flation under them than we did under the leadership of the Republican party,"—banker, Michigan.

"—Democratic victory might signal a new wave of labor strikes, wage demands and increased costs," —president, shipbuilding firm.

"—Democratic victory will increase centralism, probably increase taxes, create a greater monopoly position for labor and generally create more undesirable problems for business management,"—president, manufacturing.

Employment

Of the executives taking part in the poll, 55.3 per cent expect employment in their companies in 1961 to remain at about the same level as this year. Increased employment is foreseen by 28.3 per cent; 16.4 per cent expect it to decline.

Capital spending

The survey asked what kind of capital spending program the participants envisaged for their firms in the coming year.

38.2 per cent said they would spend to reduce costs for existing products or services.

23.9 per cent said they would spend on plant or equipment to launch new products or services.

29.9 per cent said they would spend for a combination of the two.

Eight per cent were less specific in answering, or gave answers which required separate classification.

Intentions to spend for expansion were discussed by executives in petroleum, electric power production, and several other industries. A steel company official, undoubtedly thinking of excess capacity in that industry at present, said simply: "No present need for expansion." A number of executives pointed out that their capital spending programs are established on a long-range basis and will continue as planned.

Research and development

Asked if their companies planned to spend more, less or the same for research and development in 1961 than they did this year, the executives replied:

More—38.1 per cent.
Less—3.5 per cent.
Same—41.5 per cent.
Not affected—16.9 per cent.

Price plans

The survey asked each participating business leader whether he expected the price of his company's products or services in 1961 to rise, decline or remain at about present levels.

72.4 per cent of those answering this question said their prices will remain about the same.

17.7 per cent said their prices will probably rise.

9.9 per cent said they expect their prices to decline.

Labor costs

To a question:

"Will your unit production labor costs (not just wage rates) rise, decline or stay about the same?"

52 per cent answered that they expect these costs to remain about the same.

32.7 per cent said they expect them to go up.

12.5 per cent said they expect these costs to decline.

"Not applicable" or other answers were given by 2.8 per cent.

The average estimated rise was 2.8 per cent. The average estimated decline was four per cent.

Cutting costs

Participants in the survey were asked if they were moving to cut costs and, if so, to specify some of the actions being taken.

In almost all instances, the executives indicated that their companies are extremely conscious of costs and are reducing them wherever possible.

Methods of cost reduction varied. Some often mentioned include better procedures in cost-accounting, adoption of automation as a means of achieving greater efficiency and economy, requiring strict adherence to budgets, elimination of unnecessary operations, better inventory control, and work simplification.

Here are some representative comments:

"Special committees will constantly review all major items of expense,"—executive vice president, manufacturing.

"Further mechanization of office operations,"—director of marketing research.

"Trying to prune off built-in items—subscriptions, memberships, entertaining expenses,"— no title, Houston, Tex.

"We are deferring but not eliminating certain discretionary expenditures.

"Existing programs for more efficient mechanization and better budget controls continue,"—treasurer, drug company.

An interesting aspect of the replies to this question was that they mirrored much closer scrutiny of cost items than have other NATION'S BUSINESS surveys in the past few years. Mention of such things as the use of air mail letters in place of long distance telephone calls, of job reviews to eliminate unnecessary functions, of crackdowns on expense accounts were not infrequent and emphasize the attention which cost-cutting is currently getting.

Executive development

A special question asked if the executive's company had an executive development program and, if so, what he thought of its effectiveness and of the greatest needs his company faces in the training and development area.

Surprisingly, about 25 per cent of the businessmen reported that their companies either have no executive development program or only a most informal one.

Those who said flatly "no" responded from companies in life insurance, household moving, metal building products, railroad transportation, gas utilities, department store retailing, farm machinery and several other industries.

In a number of instances, the respondents indicated that their companies were developing formal executive development programs, or had them under serious consideration.

A majority of men speaking for companies which have programs said they feel the programs are effective. Frequent stress was placed on the need for additional training in general management skills.

In many instances executives mentioned that programs were too new to be fairly evaluated.

The vice president and treasurer of a department store observed that his company "works at developing 15 programs to get one developed . . . haven't been able to improve this ratio." This comment was not typical, however. Less than five per cent of all answers reflected categorical dissatisfaction with existing programs.

Methods for developing managers included internal, on-the-job training sessions, special company-sponsored seminars, job rotation, executive coaching, and use of outside seminars and courses.

The NATION'S BUSINESS survey covered companies in manufacturing, communications, transportation, public utilities, insurance, finance, wholesaling, retailing and services. **END**



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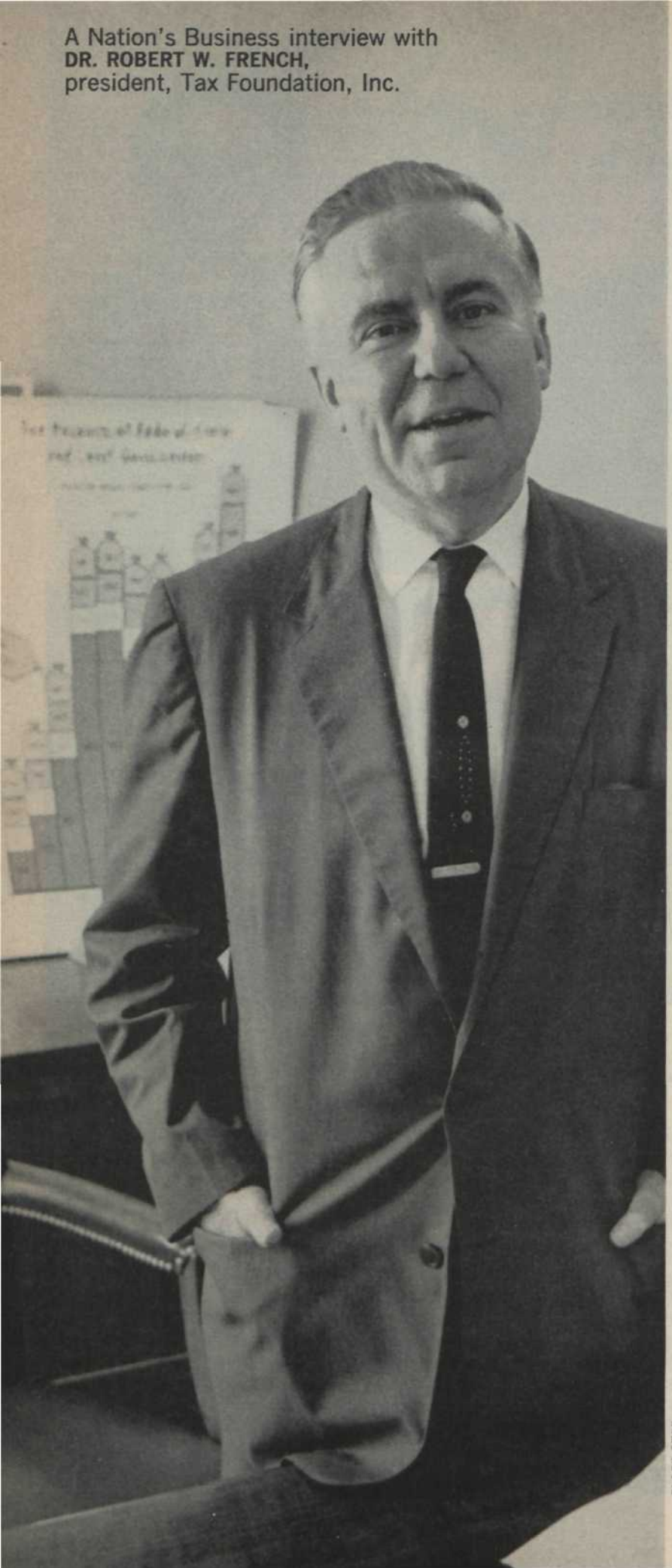
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A Nation's Business interview with
DR. ROBERT W. FRENCH,
president, Tax Foundation, Inc.



BLACK STAR

WHERE TAX CUTS COULD COME FROM

Specialist tells what trends to expect in government spending during years ahead—and how trends will affect your pocketbook

WHETHER new tax legislation will be passed in the new Congress depends in large measure on whether the expansion of civilian domestic welfare programs can be held in check or controlled.

This is the view of Dr. Robert W. French, president of the Tax Foundation, Inc.

Dr. French points out that the present tax structure has been built on a series of emergency situations. Wartime tax rates, he says, have been continued while revenues have been switched from wartime uses to welfare purposes.

Public hearings have been held and a considerable amount of study has already been given to the need for tax revision, Dr. French notes.

The Tax Foundation is a private, nonprofit organization engaged in research on federal, state and local government spending and taxation.

Dr. French was named president last December. He formerly was dean of the School of Business Administration and vice president of Tulane University, as well as a

member of the faculties of the University of Michigan, Louisiana State University and the University of Texas. He has served in a variety of assignments at all levels of government and has been a consultant to business on tax and regulation problems.

In answering NATION'S BUSINESS questions, Dr. French draws not only from his own extensive background but on that of the staff of the Tax Foundation.

Dr. French, what are the chances for tax cuts in the foreseeable future?

The possibilities of tax cuts will depend, in my opinion, primarily on what happens to government expenditures.

What trends do you see for spending?

Federal expenditures are divided almost equally into two categories: the expenditures for defense, and the expenditures for a wide variety of domestic civilian programs. The prospects for defense will be determined entirely by developments in the international sphere over which this country has no more control than its present international position will command.

The more controllable expenditures for domestic programs have been almost entirely responsible for the increase in total federal expenditures since 1954.

By that time the impact of the Korean war and the worsening of our relations with Russia seemed to have been absorbed into the federal budget. Defense expenditures today are roughly the same as in 1954, after the Korean war peak had been passed.

The $15 billion or so increase in federal expenditures since then has been associated with a variety of other spending programs—agriculture, welfare, housing, foreign economic aid, and resource projects of one kind or another. Future decisions on this kind of spending will determine our future tax load.

Do you think there will be tax revision of any sort in 1961 or 1962?

Certainly the stage has been prepared for such a revision. The House Ways and Means Committee has held hearings looking to the consideration of tax revision in the Eighty-seventh Congress. The Code was revised in 1954 and has now been in effect long enough for some of its deficiencies to become apparent to both the Internal Revenue Service and the taxpayers. We are approaching a point, therefore, where a revision of the federal tax system seems to be in order.

What we need, I should point out, even more than tax reduction, is tax reform. Whether we get it is something no one can accurately foretell. Nearly everyone agrees that the tax structure badly needs improvement. We can have new legislation if the taxpayers indicate sufficient desire for it. But, if pressures for additional spending are not strictly controlled, any kind of reduction or reform will be difficult.

The prospects for reform in the future will improve in direct proportion to how successful we can be in holding the line on vast and costly expansion of federal welfare programs. The federal budget surplus in fiscal 1960 and the prospective surplus for fiscal 1961 help bring tax revision appreciably nearer.

Both political parties are aware of the problem and both have indicated that they feel that the next Congress should do something about it. How it will be done and what will be done will depend on decisions that have not yet been made.

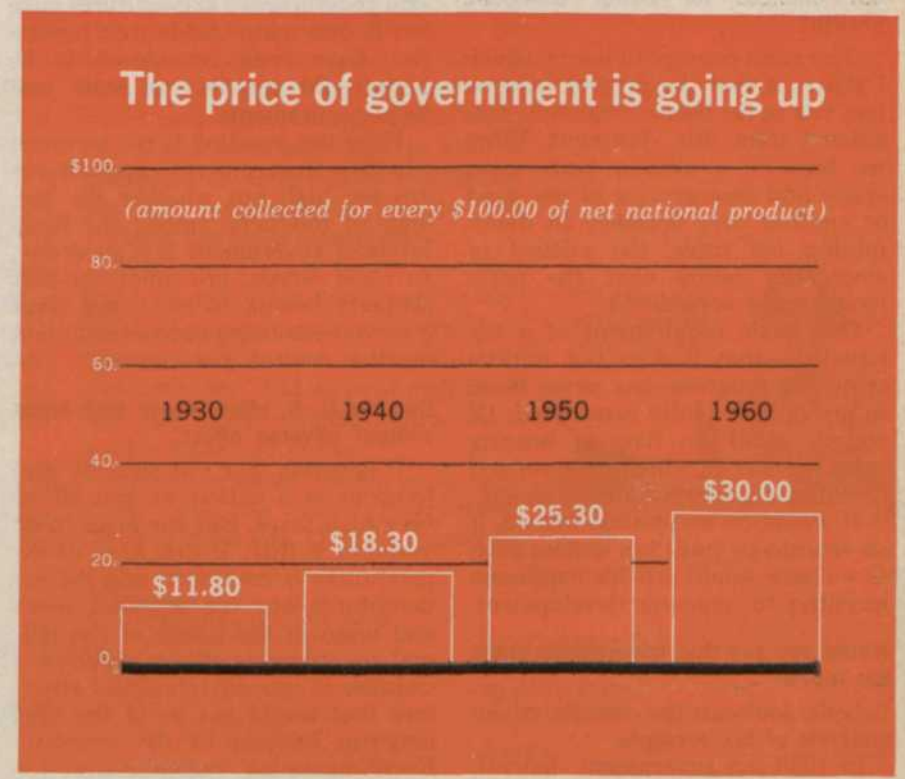
Looking ahead, say, five or 10 years, do you anticipate that taxes might be higher or lower?

Probably higher, unless we exercise better restraint on spending than we have in the past 10 years. It is clear that defense expenditures are tied to the international situation. As for the nondefense civilian expenditures, a number of factors are to be considered.

One factor will be the growth in our population. Many government expenditures are tied to population. Expenditures might be expected to increase in some proportion to the increase in population.

A second factor has to do with the degree in which people continue to move into urban areas. This urbanization movement, if it continues, will certainly be a factor in making for higher expenditures of state and local governments. If the federal government embarks on more new programs affecting state and local functions, then its expenditures will also be affected by this factor.

Finally, there is our own stage



of economic development and the progress we may anticipate in the next five or 10 years. The material needs of a country with a high living standard are clearly different from those of a country with a lower standard.

Chances are for some growth in government expenditures. How much growth will depend, in the final analysis, on the vigilance of taxpayers. It will depend, for example, upon the determination of taxpayers in demanding a good value in government.

Expenditures need not balloon. If they do, you can count on higher taxes. Today we have a close balance of federal expenditures to tax collections. Over the years, expenditures have persistently exceeded revenue, hence the big increase in federal debt.

Economic growth in the years ahead will provide additional revenues. Expansion of federal welfare programs beyond this increase in revenues, however, will inevitably have to be financed by additional taxes.

The alternative is deficit financing—bigger expansion of the federal debt. Continuing to live beyond our means can have serious detrimental effects on economic growth and the internal working of our economy.

Is the present tax structure damaging our chances for better economic growth?

The great concern of many, which I share, is that the present tax system has never been adequately considered from this viewpoint. What we have is a system built upon crises and emergencies of one kind or another over decades. In determining tax rates, the critical or emergency needs were the paramount ones considered.

One basic requirement of a tax structure—that it does not impede economic progress—has never been, in my opinion, fully considered. Of course, taxes do have a bearing upon the way in which we grow and incentives are important to growth.

It would be surprising, indeed, if an emergency-built tax system such as we have would provide maximum incentive to economic development.

Would you say that government costs too much?

Let's look at the results of an analysis of tax receipts.

In 1930 our government—federal, state, and local—collected $11.80 for every $100 of net national product. Net national product is the total value of all goods and services produced in the U. S., less capital consumption allowances.

In 1940 tax collections amounted to $18.30 per $100.

In 1950 it was $25.30 for each $100.

Now, in 1960, total tax collections are getting close to $30 for each $100 of national output.

From these figures you can readily see that the price of government has been going up steeply. At what point does the price of government become too high? This, of course, is something for the taxpayers to decide. But there is no doubt that it is already so high any further increase will have serious consequences and our citizens are becoming increasingly aware of that fact. Furthermore, we cannot escape the fact that slightly more than half of our federal expenditures go for protection. Whether this is too high or too low is a question of judgment. I doubt that there is any strong sentiment in the United States that we are spending too much for defense. Many contend that it is not enough. But it is an interesting fact that the difference between those who would increase our defense appropriations and the present level of defense spending is considerably less than 10 per cent.

When one turns to the domestic side of the picture, the answer is by no means easy. Certainly, the federal government's expenditures have led it into many fields that heretofore have been considered to be largely the province of state and local governments.

Here the question is not so much whether government expenditures are too high but whether the balance of functions among the three levels of government is a good one. In other words, are functions that properly belong to state and local governments being encroached upon by the central government?

Can the U. S. afford these high taxes without adverse effect?

It depends. For our security and freedom as a nation we can afford very high taxes. But the more basic question is this: If this level of expenditures is continued and the expenditures are concentrated more and more in the hands of the federal government, will we experience changes in our governmental structure that would not be in the best long-run interest of the country? Even assuming expenditures for domestic spending programs at their present level, there are serious doubts about the long-run wisdom of this. But you ask: Can we afford this? The answer is yes; we are affording it. We can afford to do whatever is necessary during emergency situations. But the question of what is necessary in peacetime is another matter.

Individual income tax rates today are roughly as high as they were during World War II. Income taxes on corporations are even higher, except for the excess profits tax. These have not been reduced since the Korean emergency.

Meanwhile, we've shifted from war uses of these taxes to a larger proportion of welfare uses. While defense spending today is approximately the same as it was seven years ago, all other categories of federal spending programs have nearly doubled. We've switched wartime taxes from wartime uses to welfare-state programs.

Our economy can sustain the price of government. Whether it is the most desirable level of expenditures in the long run is another matter.

How much influence would you say that taxes have on economic growth?

There are several ways of measuring this. Let's look at it this way: For every $3.25 worth of goods and services bought by consumers the various levels of government buy $1 worth. Such a large proportion cannot be ignored. Its impact is great.

Government expenditures absorb larger and larger amounts of our gross national product. This means that certain things produced and consumed are different from the things which would be produced and consumed if government expenditures were less.

This means, too, that it is more important that government in the years ahead be responsive to the needs of society and to the citizens than in the past. We can't afford to take chances that special interest groups will be so effective that they will distort this expenditure pattern, as it appears they have sometimes in the past.

In other words, we can't settle for a situation in which government expenditures merely represent a casual combination of the wishes of special interest groups without regard to the effect of that combination upon the citizens as a whole.

There is considerable interest today as to whether our economic growth is falling behind that of the

(continued on page 59)



Imagine doing this every day—yipes!

After a three-evening hassle with Christmas cards, it dawns on tycoon-to-be, J. Thrist Upturn, that mailing is a mean, tedious, messy job; and why the girls in his office keep talking up a postage meter!

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The benefits? First off, no stamps. No stamp sticking. No running out of the right stamp. No stamp box, guarded like the family jools!

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There's a meter model to fit your needs. Ask the nearest Pitney-Bowes office to show you. Or send coupon for free illustrated booklet.

FREE: *Handy desk or wall chart of latest postal rates with parcel post map and zone finder.*

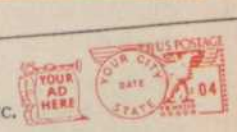


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Name _____

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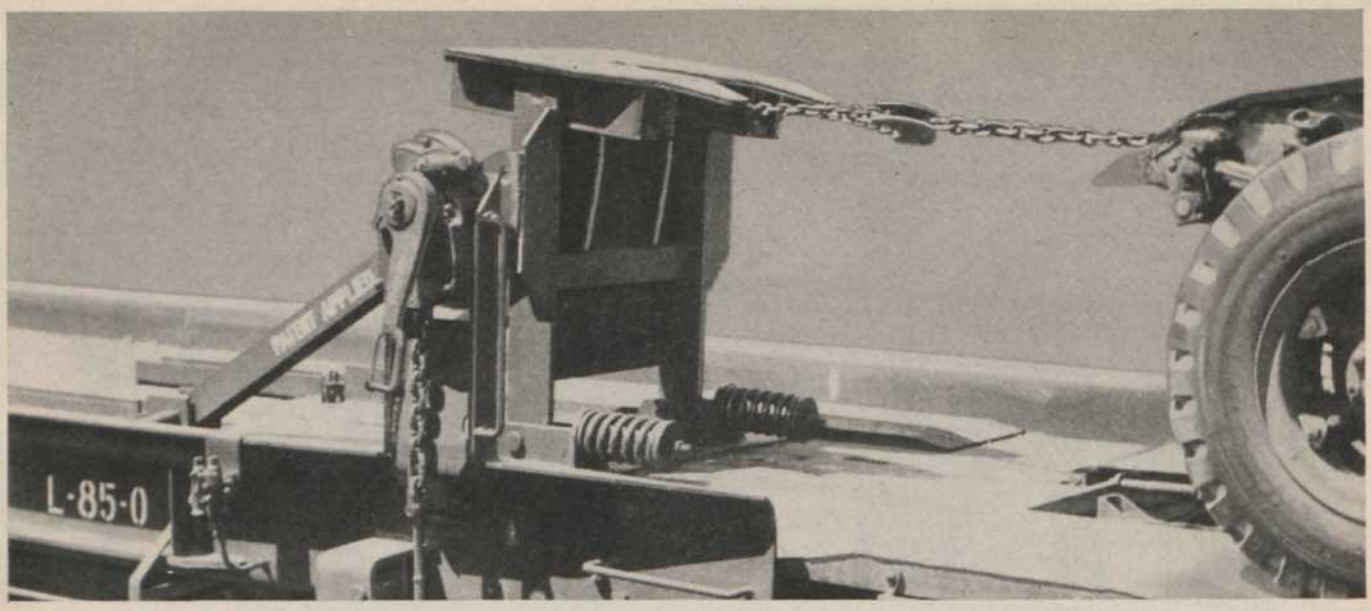
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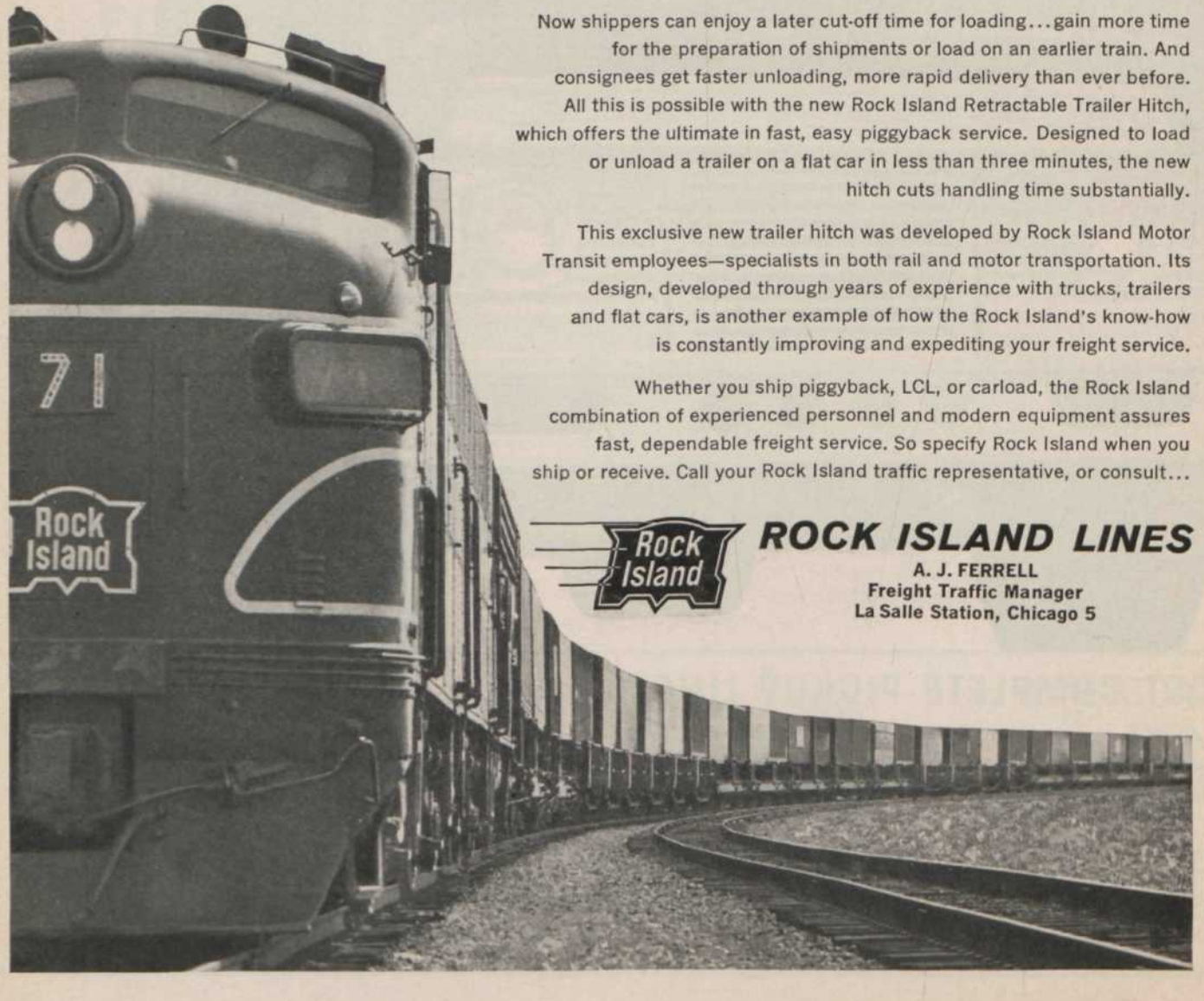
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communist world. This raises the question whether high taxes are stunting our economic growth. If we get economic stimulation from high government spending, then couldn't we achieve a greater rate of economic growth, if that is desirable, simply by taxing more and spending more?

You can force a certain amount of economic activity by high government spending. But you will force that economic activity into certain channels which may or may not produce a larger income in the future.

There is no doubt that high taxes and high government expenditures would stunt our economic progress in the long run, however much they might stimulate business in the short term.

This is an area in which much more hard thinking needs to be done.

Dr. French, will you define what you mean by fiscal responsibility?

Fiscal responsibility is to me an attitude, an approach, or a state of mind with respect to the fiscal affairs of government. It is an attitude which combines integrity and reliability with accountability and responsiveness to the needs of citizens.

Could you give some examples?

One evidence of fiscal responsibility would be the relationship between what the government takes in and what the government spends. Another evidence of the presence or absence of fiscal responsibility would be in the relationship of what government spends to what is left for private individuals to spend. Another would be the manner in which we manage the debt we have accumulated. These measures of fiscal responsibility can be applied not only to the federal government but also to government at the state and local levels.

It seems to me that the question of fiscal responsibility, in the case of the federal government, is raised most strongly in the persistent deficits of the past 30 years. Any objective examination of the history of these deficits over the past three decades will show that they have not been completely related to the prevailing economic conditions and not completely explained by war or the threats of war. This is certainly the strongest indication that Congress on many occasions has not acted in a completely responsible

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manner in connection with federal fiscal affairs.

Another question of fiscal irresponsibility is raised by what we have done with our federal debt. Have we made a sufficient effort to reduce this debt in the postwar period? I doubt that many think we have. It is apparent from our postwar history that it is extremely difficult, if not impossible, to budget a surplus that will be applied to debt reduction. Such surpluses as we have had have come about largely by accident or our inability to make quick adjustments in our tax structure to meet the obvious changes in expenditures. The question of whether the federal debt is too large or too small is another question.

Do you see an adverse economic effect from enlarging the debt?

Certainly the existence of a large federal debt introduces a rigidity into our economic system which may get in the way of progress.

For example, the interest payments on the federal debt now amount to more than $9 billion a year. That's a major cost item amounting to 12 cents out of each tax dollar. The total we spend on interest for the federal debt today exceeds the entire federal budget receipts for all years up to 1942 and exceeds the entire federal debt up until 1918.

The existence of this debt and the necessity of providing for its servicing restrict the flexibility of government in meeting both its international and its domestic needs.

The national debt today costs the taxpayers 12 cents on the dollar?

That's correct. It's equal roughly to one fifth of what we are spending on national defense. It is the second largest item in the national budget.

But the worst of this is that it is not an expenditure that you can alter from year to year as you can alter defense expenditures or all these other things, even agricultural programs. It is so integrated with the whole economic and financial structure, both government and private, that it is exceedingly difficult to make changes in it.

What do political parties have to do with fiscal irresponsibility?

Parties have tried from time to time to hang the label of fiscal irresponsibility upon their opposition and to claim fiscal responsibility for all their own actions and programs. Fiscal responsibility, however, is clearly not a partisan question. It is also not a question necessarily of conservatism or liberalism.

In a democratic society responsibility begins with the citizens, and the groupings of those citizens into corporate entities, into labor unions and into a wide variety of other associations. The individual citizen must take a responsible attitude with respect to government finance if he expects his representatives in government, both executive and legislative, to take a responsible attitude.

This same thing can be said about business, viewed as one element in our society. Business needs to reexamine its own attitudes with respect to matters of government finance and ask if these attitudes have always been those that would lead legislators and congressmen to act in a responsible way.

Too often, segments of the community have called for government intervention, government expenditures, and at the same time have decried the total of these expenditures or the level of taxes. To some degree, this inconsistency is inevitable in a democratic society, but we need constantly to examine it and to correct it where it produces a result that is detrimental to the broad public interest.

The same applies to labor unions. Here we are speaking not of their approach to the bargaining table, but their approach to matters of public expenditures and taxation—the feeling that somehow taxes are not going to be paid by labor.

The facts are plainly in the other direction. A recent Tax Foundation study, for example, shows that one dollar out of every four earned by families in income brackets ranging from $2,000 to $15,000 a year goes for taxes, federal, state and local. Labor is not escaping the burden of payment for government expenditures nor the payment of taxes. Labor's advocacy of greater expenditures in particular areas must be recognized as its advocacy of continued high taxation imposed on itself.

You have said that the states are in the most critical financial condition that they have been in since the 1930's. Would you explain that?

They are in a critical condition because they have failed to adjust their tax systems to accommodate their expenditures. This has resulted in a steady rise in state debt and repeated efforts to obtain from the federal government funds for projects which might properly be regarded as their own province.

The responsibility for these developments is not to be laid entirely at the doors of the states. Their difficulties have been accentuated by the high levels of income taxation maintained by the federal government and the virtual pre-emption of this prime revenue source.

Furthermore, the states and local governments, to a much greater degree than the federal government, have been the victims of the inflationary spiral. Because their revenue sources are generally of a fixed or a semifixed nature—that is, they do not yield increasing sums as prices rise—the state and local governments have found themselves without the means to keep pace with inflation. The federal government relies almost totally on income taxation, which rises and falls to a considerable degree with the rise and fall in prices.

What are some examples of programs that can be handled better by local governments than by the federal government?

At present, there is the question of education. It is by no means clear that the best results are going to be obtained for public expenditures on education from the mere enlargement of federal expenditures. Most studies indicate that, by any objective standards, relatively few states cannot afford the cost of a better educational system.

Questions of local public improvements, water pollution, sewage treatment and similar programs seem to me to need much more serious examination before the federal government gets into these fields, which are primarily local in nature.

They raise questions as to why people think one part of the country should pay for improvements in another part of the country, particularly when it is not at all clear that those other communities cannot afford these improvements.

Another serious question is the matter of mass transportation in our cities. This is complicated because in some instances the problems cross state boundaries but, apart from that, it would seem that the expenditures for those should be confined as nearly as possible to the areas that demand the services and get the benefits, unless it can be demonstrated much more clearly than it has been that these areas cannot afford it. **END**

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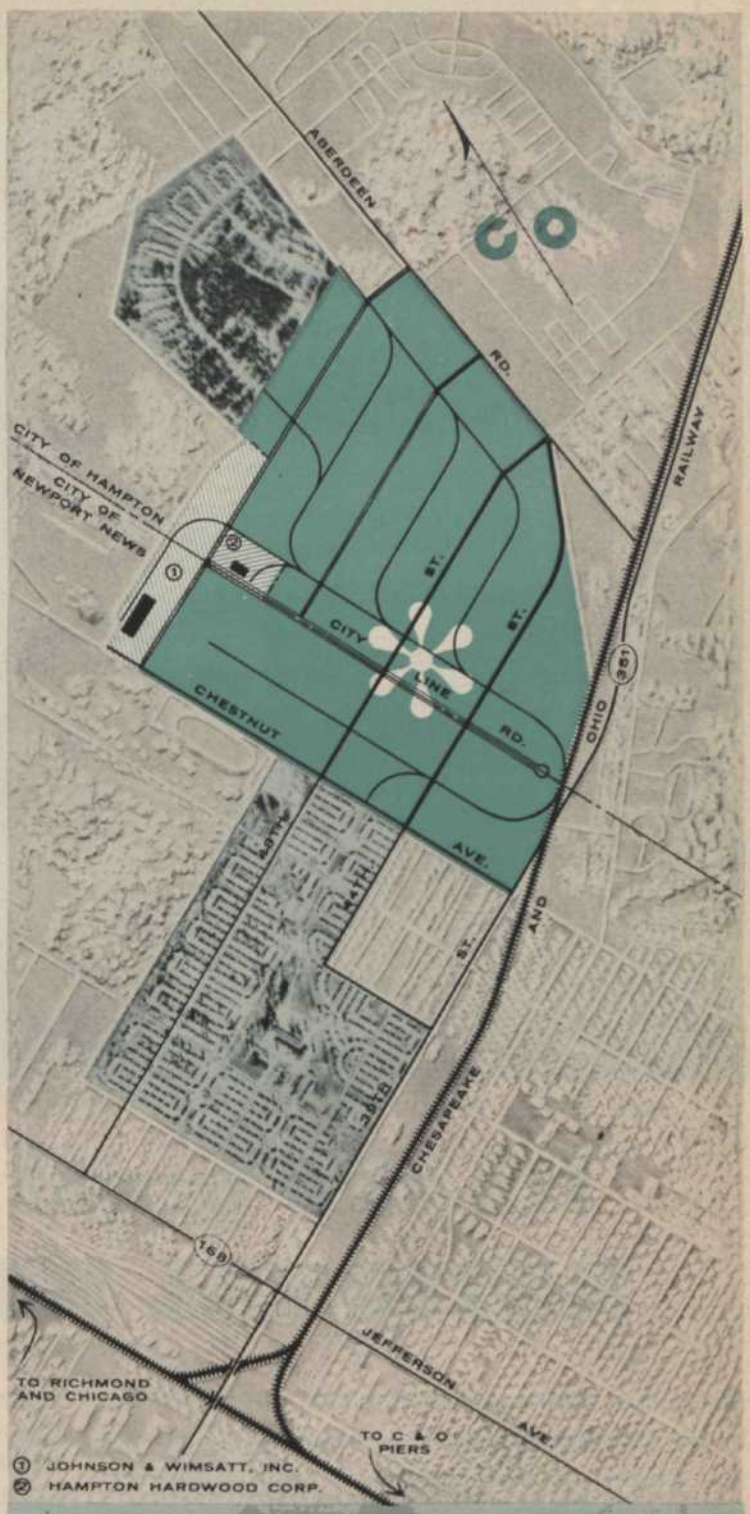
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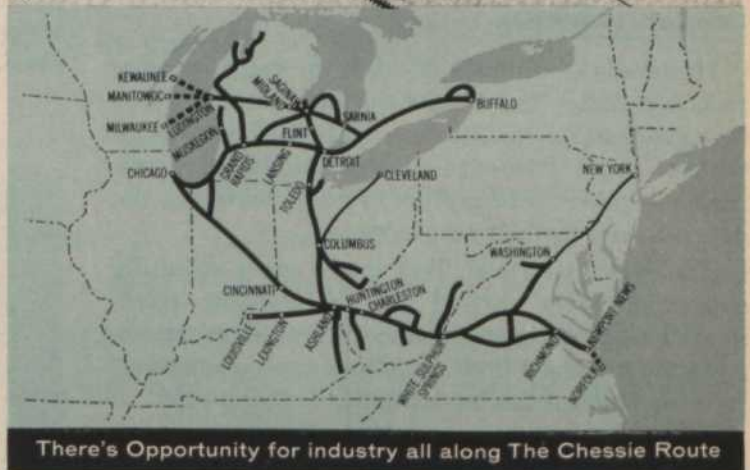
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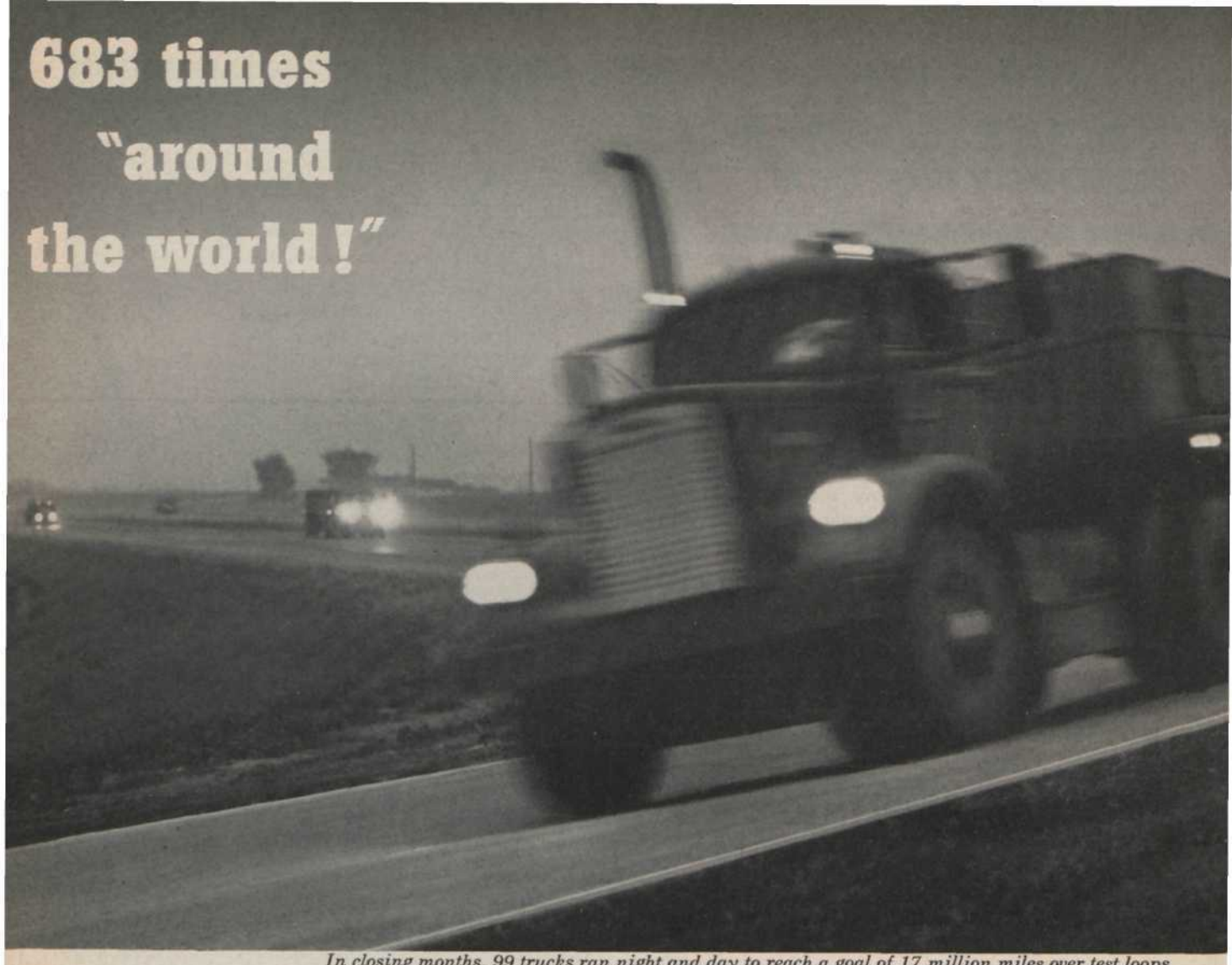


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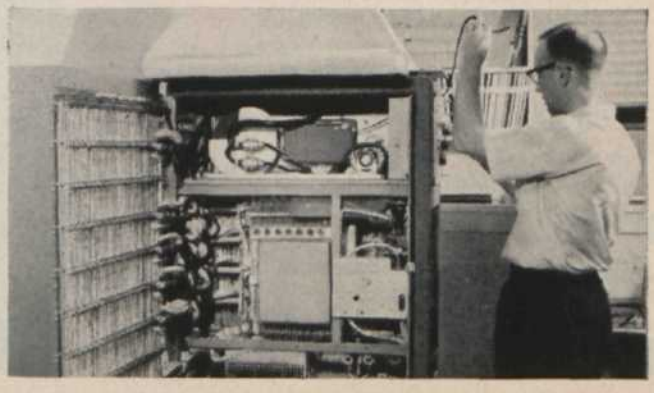
It's the great two-year NATIONAL ROAD TEST!

November 30th marked the end of test traffic in the $27,000,000 pavement test sponsored by the American Association of State Highway Officials (AASHO).

Hundreds of millions of scientific readings were recorded before the trucks finished pounding the test pavements at Ottawa, Illinois. The fleet of trucks—from farm-size pickups to 54-ton semi-trailers—piled up 17 million miles of travel on the concrete and asphalt test loops.

The National Road Test is the most scientific experiment ever carried out on highway pavements. Automatic electronic instruments assure accurate unbiased findings. Giant computers evaluate the mountains of statistics accumulated.

Directed by the Highway Research Board of the National Academy of Sciences—National Research Council, the National Road Test is both impartial and authoritative. The significant findings will influence design and construction of streets and highways across the nation. Out of this test will come even better driving for you.



Millions of scientific readings have been analyzed by computers at the National Road Test. Useful new facts on modern pavement design will result.

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A national organization to improve and extend the uses of concrete

SPECIAL LETTER

NATION'S BUSINESS EDITORS REPORT ON: foreign trade

BIG SHIFTS are shaping up in foreign trade. Analysis shows these trends:

U. S. is selling goods, services abroad at rate of $19.5 billion a year. Exports are running $250 million a month higher than average for '59.

* * *

WESTERN EUROPE and Japan are stepping up their buying fastest. Nearly three fourths of year's gain in export trade goes to those areas. More goods are also going to Australia, New Guinea, Union of South Africa.

Canada is buying more than last year.

Latin American countries are buying less from us. Decrease in buying by Venezuela and Cuba offsets increases by other Latin nations.

Cuban situation? Pre-Castro Cuba was good customer, buying an average $51.5 million worth of U. S. goods a month in '58. Rate plunged last year to $36.4 million monthly, now is running $22.5 million--and nose diving.

* * *

FUTURE OPPORTUNITIES in foreign selling? They're big. Important trends:

Japan has lifted trade restrictions against U. S. goods from 270 items this year, plans to remove more. Customer demand, already good, will improve in years ahead. Japan's national output, now about $30 billion a year, will rise to $60 billion by '70. That means standard of living is going up fast, means growing capacity to buy U. S. goods.

Liberalization of restrictions against American merchandise in Europe is also going on, is one reason why Europe has been able to boost purchases from U. S. by 50 per cent this year. Rapidly rising consumer demand in Europe also accounts for larger market for U. S. goods.

Latin America is another market with great potential for future. Latin countries have 200 million people now, expect to have 270 million by '70. Per capita production, $250 in '52, more than $285 now, is expected to rise

to $370 in 10 more years. Rising standards of living, capacity to buy more consumer goods make that area prime target for communists. Reds will try hard to beat U. S. out in as many Latin countries as they can.

* * *

AFRICA IS ANOTHER AREA where trade in years ahead will pick up significantly. Except for Union of South Africa and United Arab Republic, trade with African countries is only a trickle.

But continent has vast untapped market potential. Example: Nigeria, with 40 million consumers, has political stability, good currency, is buying more than $535 million worth of goods and services a year from other countries. Trade specialists expect purchases by Nigeria to rise importantly throughout years ahead.

Other African nations, currently plagued with political instability, also will boost purchases.

* * *

HOW'D YOU DO ON FOREIGN TRADE test that you took on page 9? Here's list:

Canada--First, way out in lead as our best customer. Northern neighbor is buying an average of more that $314 million worth of goods and services a month from us. That compares with $310.6 million average in '59.

Japan--Second, by close margin over United Kingdom. Buying of U. S. goods by Japan is soaring. Monthly average now is $108 million, compared with $77.5 million year ago.

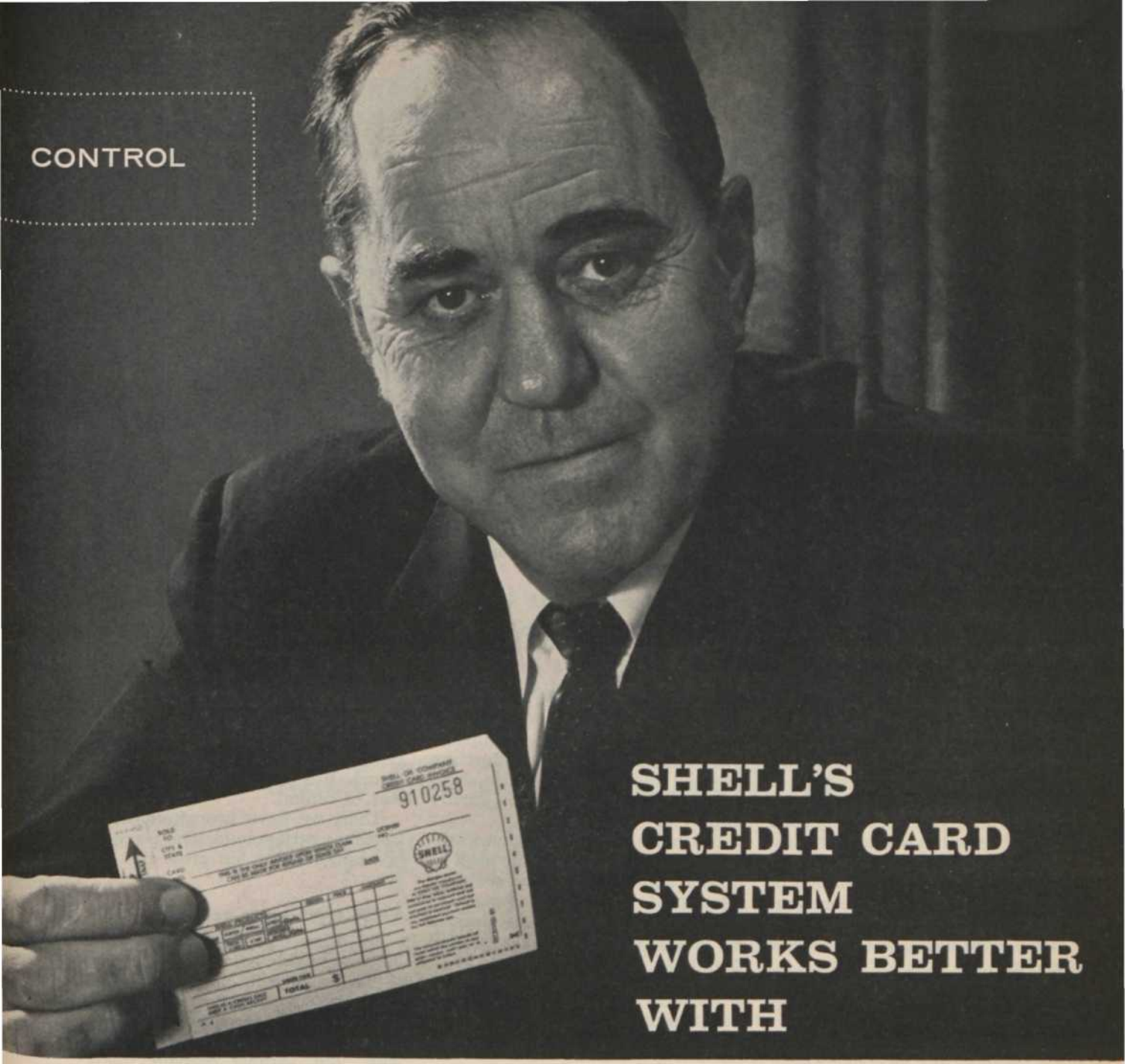
United Kingdom--Trails Japan with monthly purchases averaging $107 million. Last year's average was $73.7 million.

West Germany--Fourth best customer, monthly average exceeding $89 million this year compared with $62.3 million last year. Germans were sixth in '58.

Mexico--Fifth place. Southern neighbor was second best customer in '58, slid to sixth last year. Mexico this year is buying $67 million worth of goods from U. S. each month, up from $60.9 million last year.

India and Pakistan--Together these countries are buying more than $66 million worth of goods a month from us. Figure year ago was $36.6 million.

Other good customers abroad: Italy, France, Venezuela, Australia.



SHELL'S CREDIT CARD SYSTEM WORKS BETTER WITH MOORE BUSINESS FORMS

R. K. Burns, Controller,
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The system is built around the charge ticket used in the stations. One part of it is a card for use in electric accounting machines. It comes into the main office a simple handwritten record of the sales facts. The facts are punched into the card, turning it into a key part of the system. From here on, all steps are automatic, including the printing of statements. Receipts are also checked by machine; the chance of human error is all but eliminated. The charge ticket is a specially designed Moore form—the Company's control in print.

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HOW TO SPOT LOSING OPERATIONS

Ten steps can help you turn low-profit activities into sources of needed money

NEARLY EVERY BUSINESS has its so-called marginal operations—that is, segments that are operating at little or no profit, or possibly at a loss, year after year. Spending good money after bad to rescue such situations is a common mistake.

This need not be. Liquidation of the trouble spot may be the answer. The problem may be a product, or a group of products, or a particular price line.

Or it may be a department, or division, or possibly an entire plant where results are disappointing.

Or one of the channels of distribution may be the offender. Again, one geographical area may be unsatisfactory.

These are a few examples. There could be many more.

Where liquidation is the answer, it may be done in several ways. You may make an outright sale to another who is in a position to operate the segment more profitably. Or you may make a piecemeal withdrawal. In other words, the inventories and accounts receivable may be worked down to zero, and the plant and equipment diverted to more profitable uses.

But the important thing is the decision itself. Liquidation of even a small piece of a business may be considered a bold step.

There are major advantages. One, an unprofitable segment is eliminated. Two, low-cost capital is obtained from within the company. Three, money, time and effort are diverted into more productive channels. Profit returns may be greatly improved.

But not all unsatisfactory operations can be liquidated. One must be careful about this. There are definite rules to follow in reaching such a decision. How does one decide? By finding the answers to these ten questions:

1 What is the book value—that is, the present investment in the segment in question?

2 What would be the probable loss from liquidation?

3 How much cash recovery does this leave—(one minus two)?

4 Are there any federal income tax recoveries?

5 Are any replacement expenditures forestalled as a result of the liquidation?

6 Add three, four and five. This is the total cash recovery.

7 What is the total profit of the business now?

8 What will it be after the liquidation?

9 Difference in profit. Seven minus eight.

10 Divide nine by six. If the operation is continued, this is the rate of return. If it is liquidated, this is the cost of capital.

Thus, we have two alternatives. Continue or liquidate. The percentage under point ten gives the answer.

STEP 1: Measure book value

Jot down the present book value of your investment in the segment of the business in question. This is the money now tied up in working cash balances, accounts receivable from customers, inventories of all sorts and various prepaid items such as prepaid insurance premiums and prepaid taxes. Add this up. Then subtract all the money owing to creditors or accruals for unpaid taxes and other unpaid items. The resulting figure is your working capital investment. Next, add your book investment in property, plant and equipment. This is your original cost minus accumulated depreciation reserves. Enter your total investment. In the example, this is shown at $10,000. Should this investment be continued as is? Or should it be liquidated to provide cash for possibly more profitable ventures? The remaining steps provide the answers.

STEP 2: Measure probable loss

Liquidating an unprofitable operation rarely means recovering 100



"80 billion bucks! Isn't it a good thing we don't get all the government we pay for?"

They say a Texas businessman expressed those colorful sentiments when he discovered the size of the national budget.

Many people suspect we get too much government when they learn that the federal government engages in some 19,000 commercial and industrial activities in its civilian branches alone.

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LOSING OPERATIONS

continued

cents on each investment dollar. Usually there are various losses. For example, withdrawal from a given field may be followed by losses in collecting existing accounts receivable. In other words, bad debts.

THESE STEPS ARE ILLUSTRATED IN WORK SHEET OPPOSITE

Again, it is difficult to work inventories down to zero without suffering markdowns and other losses. Prepaid items are seldom recovered in full. And the greatest loss of all may be in the sale of property, plant and equipment at a figure well below the depreciated book value. In the accompanying example each of these points is estimated carefully. Probable losses on liquidation are listed at $2,000, or 20 per cent of the book investment.

STEP 3: Cash recovery

This is the difference between steps one and two. Book value of the investment less probable loss equals cash recovery. In this example, $10,000 less $2,000 equals $8,000.

STEP 4: Federal tax recoveries

Fortunately, in most cases, the federal government shares the losses from liquidation. In many instances this is a tax recovery of 52 per cent of the loss. Or, in round numbers, call it 50 per cent. But this is not always so. The charge may not qualify as an ordinary business loss. Or, the book basis may differ from the tax basis of the properties involved. Tax counsel may be needed to decide these things. But, in the example, tax recoveries have been rounded off at 50 per cent of the probable losses. This gives a figure of $1,000 which is to be considered as part of the cash recovery.

STEP 5: Replacement expenditures forestalled

One more important element remains in the cash recovery picture —replacement expenditures forestalled as a result of the proposed liquidation. This figure is obtained by counting up all of the foreseeable short-term replacement expenditures—that is, for the next two or three years.

In the example given, the plant and equipment are in such bad repair that any attempt to continue operations over the next few years will require new outlays of $3,000. It was this fact that brought the case into focus at this time. Liquidation will cancel the need for these outlays. Replacement expenditures avoided in this way are equivalent to part of the projected cash recovery.

STEP 6: Potential cash recovery

This is the sum of steps three, four and five. That is, the cash recovery from the liquidation of working capital and the property, plant and equipment, plus estimated federal income tax recoveries, plus replacement expenditures cancelled. In this case, it is $8,000 plus $1,000 plus $3,000. If the proposal to liquidate is carried through, a total of $12,000 will be made available for other uses.

STEP 7: Show present operations

The suggested formula is given on the worksheet. Sales less cost of sales equals gross profit. Gross profit less expenses equals earnings before federal taxes. This amount less federal taxes equals net profit—in this case, $2,000. This is the going rate of profit for the business as is.

STEP 8: Show projected operations after liquidation

Now repeat the process just mentioned. But this time show the situation as projected after reflecting the proposed liquidation. The result in this case is a projected profit of $1,760.

STEP 9: Effect

This is the difference between steps seven and eight. Simply subtract one column from the other and enter the difference. In this case, the net profit difference is $240. This is the net profit given up as a result of the proposed liquidation.

STEP 10: Cost of capital

Now we are ready to draw our conclusions. Step six indicated a potential cash recovery of $12,000. Step nine shows the annual net profit to be given up as $240. Divide step nine by step six. In other words, divide $240 by $12,000. The answer is two per cent. If operations are continued, that is the rate of return that will be earned on the cash recovery value of the investment of this particular segment.

But, if this segment is liquidated, this ratio of two per cent represents the cost of capital raised. Stated differently, here is a $12,000 source of funds available at an after-tax cost of two per cent. This is a low cost, indeed, and several points below the profit potentials indicated for several projects pending in other and more profitable divisions of the company.

In this case the decision was reached easily—liquidate. Money is diverted in this way from ventures showing low returns into ventures showing higher returns. And overall profit returns are enhanced as a result.

This is an easy example. The figures are small. But, add any number of ciphers and the approach will not change. It applies to the small, medium and large company alike. Where the facility to be liquidated is losing money, the net profit from projected operations, step 8, will exceed the present profit, step 7, and the net profit difference or effect, step 9, will be shown as a minus figure. Likewise, in that event the cost of capital, step 10, will show as a minus percentage. Usually such minuses are shown in red, or the figures are circled. In such cases the advantages of liquidation are even more compelling. Capital is obtained at a zero cost and a loss is stopped at the same time.

This is the step-by-step approach. It can be tied into the company's fiscal program by calling for such a review of all marginal operations at the time of the annual budget preparation. An approach along these lines is especially indicated in those instances where substandard operations are in need of replacement expenditures.

It may be far cheaper and better, profitwise, to withdraw from that particular activity altogether.

—RONELLO B. LEWIS

Mr. Lewis is the author of three books published by Prentice-Hall, Inc.—"Accounting Reports for Management," 1957, "Financial Analysis for Management," 1959, and "Profit Planning for Management," 1960.

REPRINTS *of "How to Spot Losing Operations" may be obtained for 10 cents a copy or $7.00 per 100 postpaid, from Nation's Business, 1615 H Street, N. W., Washington, D. C. Please enclose remittance with order.*

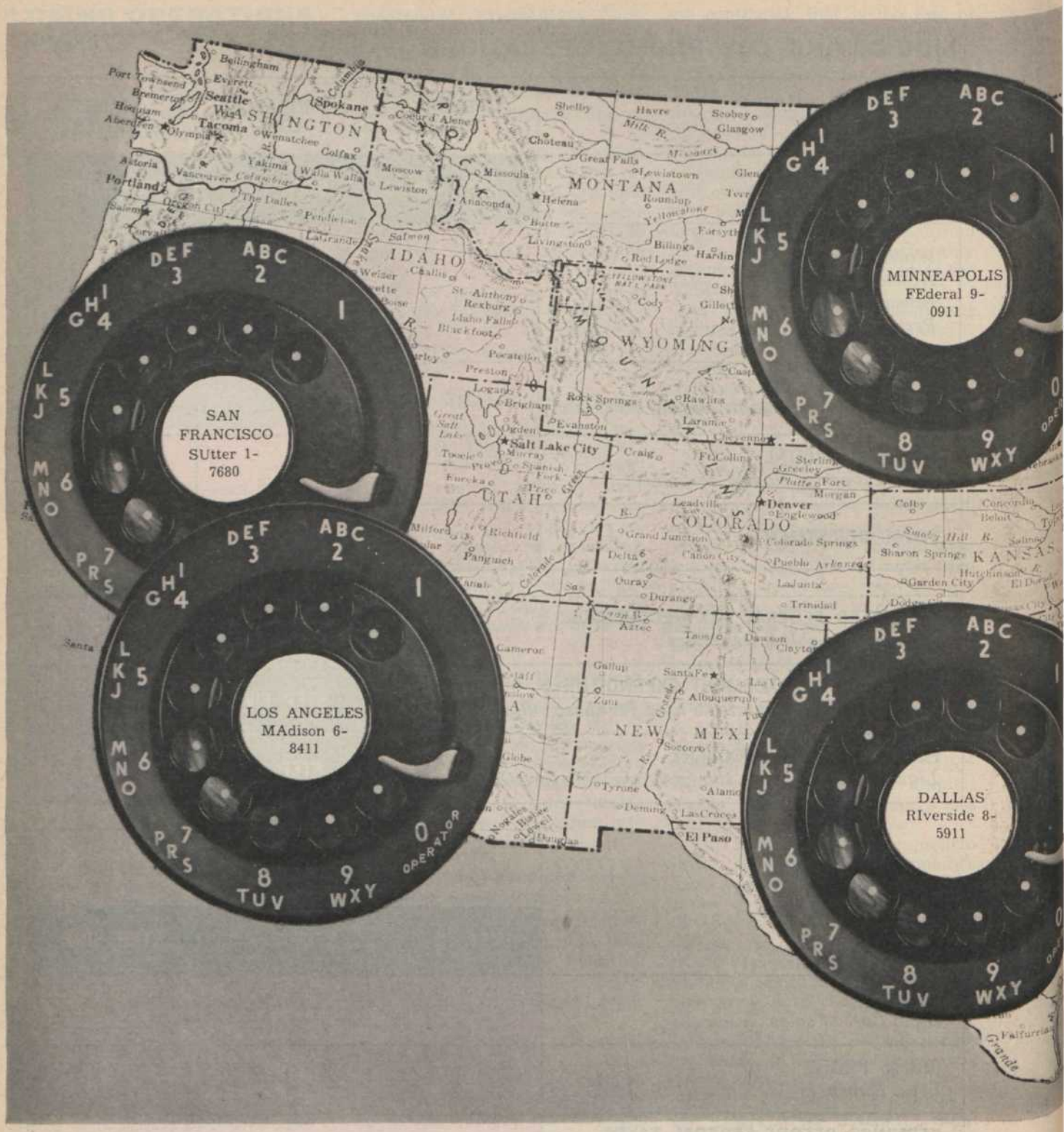
LIQUIDATING LOW-PROFIT OPERATIONS

PARTICULARS	BOOK VALUE	PROBABLE LOSS	CASH RECOVERY
	STEP ONE	STEP TWO	STEP THREE
Working cash	$1,000	——	$1,000
Accounts receivable	3,000	$300	2,700
Inventories	3,500	500	3,000
Prepaid items	500	200	300
CURRENT ASSETS	8,000	1,000	7,000
Less: Accounts payable, unpaid taxes, etc.	2,000	——	2,000
WORKING CAPITAL	6,000	1,000	5,000
Add: Property, plant & equipment	4,000	1,000	3,000
TOTAL INVESTMENT	10,000	2,000	8,000

ESTIMATED FEDERAL TAX RECOVERIES *Against probable losses above*	STEP FOUR	$1,000
ESTIMATED REPLACEMENT EXPENDITURES *Liquidation will cancel the need for these outlays*	STEP FIVE	3,000
POTENTIAL CASH RECOVERY *Liquidation will make this cash available for other uses*	STEP SIX	12,000

	PRESENT OPERATIONS	PROJECTED OPERATIONS	EFFECT
	STEP SEVEN	STEP EIGHT	STEP NINE
SALES	$ 30,000	$ 24,000	$ 6,000
Less: Cost of sales	22,000	17,000	5,000
GROSS PROFIT	8,000	7,000	1,000
Less: Expenses	4,000	3,480	520
EARNINGS BEFORE FEDERAL TAXES	4,000	3,520	480
Less: Federal taxes on earnings	2,000	1,760	240
NET PROFIT	2,000	1,760	240
NET PROFIT GIVEN UP *as a result of the proposed liquidation*			240

COST OF CAPITAL *Profit given up divided by cash recovery*	STEP TEN	2%

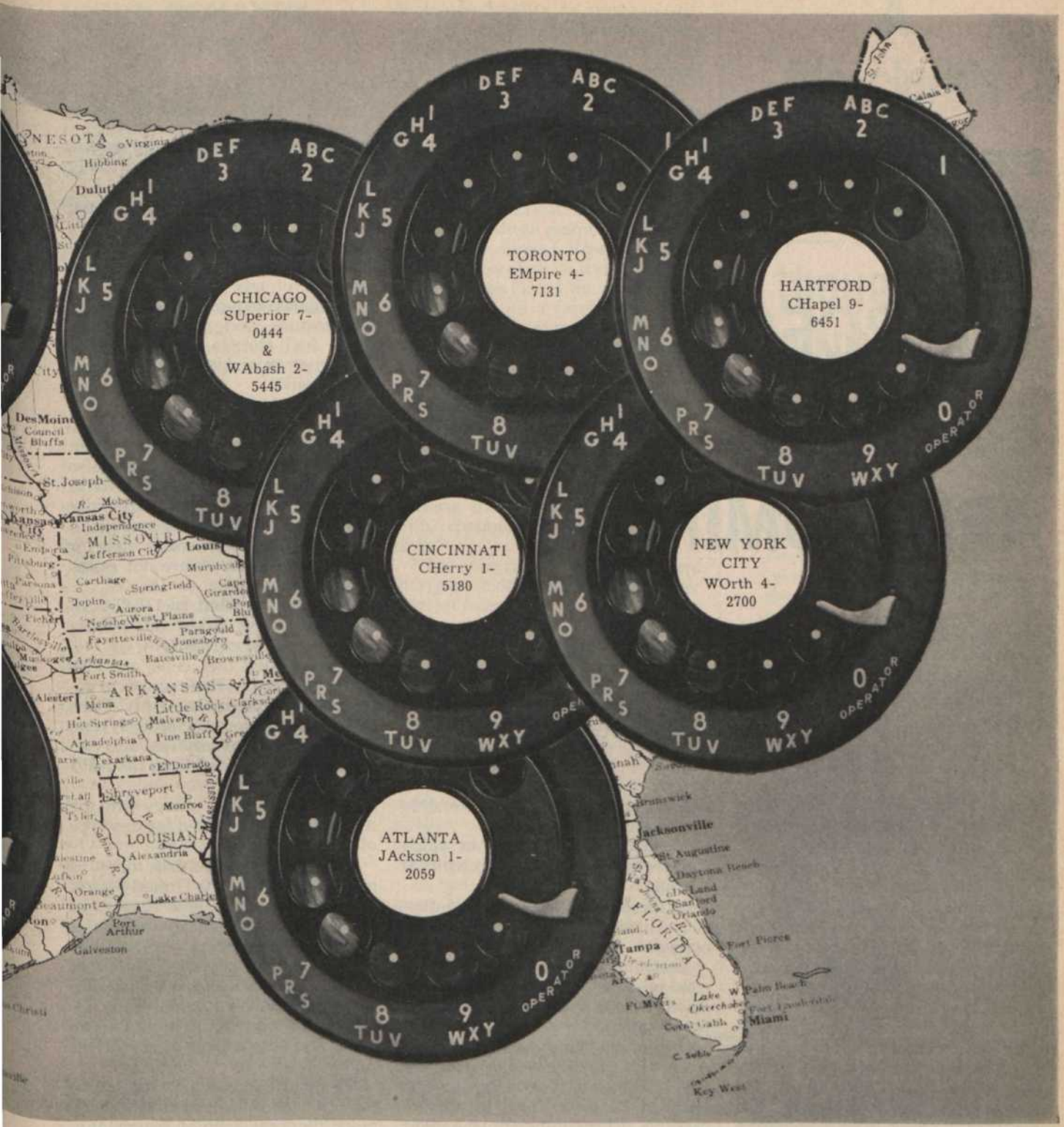


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PROGRESS:

NEW SOURCES OF ELECTRIC POWER ARE COMING

Research shows feasibility of techniques which could be widely adapted by business

YOUR BUSINESS soon may have revolutionary new sources of electric power to run its machines.

Ways to get electricity economically directly from atomic or thermonuclear reactions still seem in the distant future. But two important developments—the fuel cell and the plasma generator—promise practical results within five years or so.

Intensive research has proved each of these developments technically sound and potentially economical. Both are based on principles which have been known for years, but recent progress has stemmed largely from technology developed since 1957.

The fuel cell, in essence, is a battery which does not need recharging and does not wear out. It provides a continuous flow of energy through an electrochemical reaction. Only its fuel must be replenished.

Three types of fuel cells have been shown to be feasible:

1. The hydrogen-oxygen cell, which uses these two elements as consumable electrode materials.

2. Carbonaceous cells, which use some form of fossil fuel (such as natural gas) and air as consumable materials.

3. Solid electrode cells, in which the electrodes themselves constitute the fuel.

Of these types, the hydrogen-oxygen cell is furthest along in development.

Early models have already been employed in electric welding, to drive fork-lift trucks and as portable power plants.

One plant being provided to the Army and the Marine Corps weighs only 30 pounds but puts out 200 watts at 24 volts. Used to operate portable radar equipment, the plant "eats" metal hydride as fuel with air as the oxidizer. With 72 pounds of fuel this plant does the work of 1,200 pounds of conventional batteries.

Carbonaceous and solid electrode cells are less advanced, although one Midwest company has developed a carbonaceous unit which generates 15,000 watts and drives a tractor through a direct-current motor.

Some advantages of the fuel cell are that it has few moving parts; its exhaust consists of carbon dioxide or water, which do not pollute the air; it is light; it is virtually noiseless; it has long life.

Some disadvantages are that the fuel cell is mainly a low-voltage, direct-current device, which means it is not suitable for power transmissions of any distance; its best performance requires above-average temperature and pressure conditions; fuel storage is likely to be somewhat unwieldy; the fuel itself is expensive.

All of these disadvantages are expected to be overcome soon.

Fuel cell experts believe their brain children hold great promise as a source of household power, to operate motor vehicles—especially heavy ones, to power motors of all kinds in areas where usual fuels for producing electricity are not readily available.

Some believe that fuel cell-powered, four-wheel drive automobiles are an eventual certainty.

Regenerative fuel cells are also in the picture but their practical application seems further away. Such cells will employ a closed system in which the necessary fuel and oxidizer are regenerated from the cell's exhaust.

Solar or nuclear energy are the usual sources suggested for this type of system.

Fuel cell development today is most advanced in the United States, England, Germany and Russia. In this country some 20 industrial firms, plus a number of educational institutions, are at work. Estimates are that research support alone has increased from an annual $1.5 million to $3 million in the past two years and shows signs of skyrocketing.

The plasma generator has grown mainly from industrial efforts to explore the new field of magnetohydrodynamics, which is the science of controlled nuclear fusion.

But where controlled fusion appears distant, its requirements for handling hot ionized gas, called plasma, have turned up an important new way to create electrical energy.

This is done by shooting plasma at high speeds through a strong magnetic field. Since ionized gas conducts electricity, the moving plasma performs the function of the armature in the conventional gen-

(continued on page 88)

UNION DEMANDS

continued from page 43

ployer went far enough, it held, in giving the union a list of subcontractors for maintenance work and a description of the work being done.

Moving

Some companies are paying the penalty for agreeing to give the union a voice in their freedom to move to another locality.

A number of rulings handed down by arbitrators and courts hold the companies financially liable for moving in violation of their union contract.

The U. S. District Court has ordered a shoe manufacturer to pay the United Shoe Workers $78,011 for moving from Philadelphia to Hanover, Pa., for economic reasons more than three years ago.

The company was forbidden by its union contract to move for any reason. The court awarded the union $50,000 in punitive damages and $28,011 in dues it would have collected over the next 20 years from the 33 employes who lost their jobs.

The 20-year period was based on the court's reasoning that the company, having been in business 40 years, had a life expectancy of another 20 years, during which the union could have expected to collect dues.

The court refused to go along with the union's demand that the company be made to return to Philadelphia or make jobs available to the terminated employes in Hanover and pay their moving expenses.

In discussing the damages suffered by the union, the court said it recognizes the union's right to receive dues from its members and to maintain its prestige among other unions.

A stiffer jolt was handed to a New York clothing manufacturer who moved his operation to Mississippi. An arbitrator's award of $200,000 in damages to the Amalgamated Clothing Workers was upheld by the lower courts.

The union waived payment of the damages after the employer agreed to re-establish his business in New York City and to pay about $40,000 in vacation payments to his New York employes.

Shifting business

Sometimes it is advisable for valid business reasons for a multiplant company to shift production from one locality to another. Advantages may include lower costs, lower wages, easier access to materials and markets, more efficient plant, or other reasons.

Unions resist this sort of move, particularly if it means the loss of jobs.

The International Ladies' Garment Workers' Union went even further. It struck four Virginia plants of a dress manufacturer who decided to import dresses from a plant it operated in Ireland.

The union forced the company to agree to set up a fund from which it would make payments to any employes in the Virginia plants who lost work or jobs as a result of the imports.

Investments

The AFL-CIO is urging the investment of union, welfare and pension funds in government-guaranteed housing mortgages in competition with commercial lending institutions.

The objective is to make more mortgage money available at lower interest rates.

The AFL-CIO has in mind the billions of dollars in jointly administered welfare and retirement funds, union benefit funds, and union treasury funds.

It estimates that investment of 30 per cent of the reserves in these funds in mortgages will decrease the tendency of trustees to place so much of the funds in speculative equities or in low-yield government bonds, and will encourage the investment of huge sums of idle cash.

It has set up a special Department of Investments to advise unions on mortgage investment.

In the larger industries, such as steel and automobile manufacturing, and many smaller ones, the employers guarantee a level of benefits and provide the necessary reserves to meet their commitments. These reserves are unilaterally administered by the companies, through trustees.

Some of the companies in this position have been under sporadic pressure from union leaders, including Walter P. Reuther, president of the United Automobile Workers, to invest the funds to support social welfare projects.

These include slum clearance, medical care and other programs as well as housing.

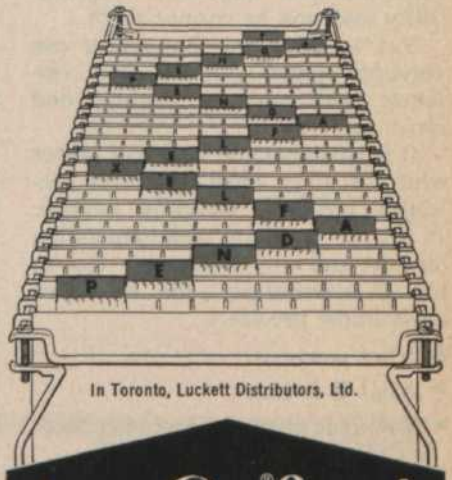
The pressure for bargaining on this subject will increase now that the unions have their own program for investing in this type of activity. **END**

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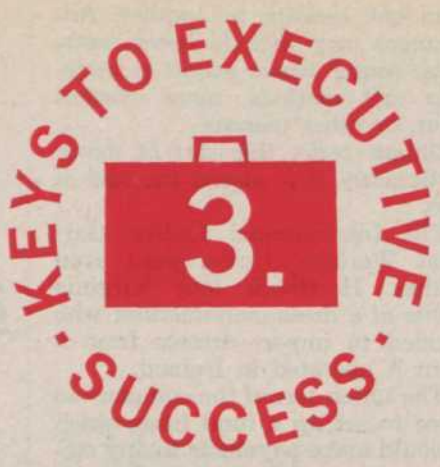
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POWER: HOW TO USE IT

Here are some revealing insights into a puzzling business problem

POWER is a social necessity. It is the stuff from which order is derived. Without the exercise of power, businesses could be neither established nor maintained. Within an organization, use of power guards against anarchy. Its use is the executive's most important responsibility and one he cannot shirk.

Yet we all know that power can corrupt, spawn tyranny and violence, dethrone the mighty, and crush freedom.

It is this demonic aspect of power which is given most attention. Actually, power is basically neutral. It can be good or bad, depending on how and why it is used. But to use it successfully, the executive must know precisely:

- What power is.
- What it is not.
- How it is acquired and exercised.

What power is

Power may be defined as the capacity of an individual to modify the behavior of others as he desires and at the same time to resist modifying his own behavior in a manner he does not desire.

It is not only one of the most pervasive human needs, but also one of the earliest a human acquires. Born into a world populated with powerful adults, a child gradually becomes aware of the advantages of power. He usually passes through a state in which he attempts prematurely to reduce the power gap between himself and his parents and other adults. He usually experiences just enough success and failure to strengthen the power drive in his developing character.

Some children grow up with all their thoughts and feelings centered in the love of power. In others the need for power is limited by other motives, such as desire for companionship and concern for others.

We know that such organizations as business and government commonly bring out the latent power drives in people. Usually, we think that the power drive is expressed by one who orders the activity of others, but the need for power may be seen in obedience to commands as well. By submitting to authority, the subordinate shares in the power of his superior. He gains a measure of control over his superior by serving his purposes.

Consequently, executive life offers a rich assortment of power satisfactions. It is understandable why executive relations are basically power relations.

What power is not

Power is not authority, although often confused with it. Authority is the recognized right to use power, but it is not power itself. An executive may have power over others without authority to use it. He may also lack power to use the authority he has. The ultimate limitation on the exercise of power is the individual himself.

Much executive power is derived from superior knowledge, ability to decide and command, or magnetic personality. Consider the president of one large corporation. His resonant voice and contagious exuberance command immediate attention. Wherever he goes he dominates his environment. This man was initially given the organizational authority which he now holds because he had acquired a wide sphere of personal power.

Because his ability to control others far exceeds that normally attributed to his position, his power cannot be called authority.

Consider, on the other hand, the executive who gives an order that is not carried out. His power is less than his authority. His subordinate, by disobedience, is increasing his own power at the expense of his superior.

Eminently qualified power-holders are seldom concerned whether their power is based on authority. This is the secret of their success, but also sometimes the basis of their failure. They make the mistake of extending their power so far beyond their authority that they become vulnerable. For this reason, the top executive systematically re-

This is the third in a series of four articles. The final article will appear next month.

arranges his organization to accomplish two things:

One is to persuade authority-giving centers, such as boards of directors, to grant additional authority to back up the power he has already acquired.

The other is to eliminate those elements that his power skills cannot control.

Force is not power. Force is translating executive power into the most extreme form of action. The executive who fires a subordinate who did not carry out an order is employing force but the action succeeds because of authority. It may demonstrate the waning of power or the abuse of power.

The true essence of power is that its results are predictable. The executive whose orders are obeyed has power. If, over a period of time, they are always obeyed, the consequences of any future command can be reliably predicted.

When force must be used, the results are not reliably predictable. The replacement for the man fired may be unable to carry out the order, performance may be delayed, other men may quit in sympathy.

That is why force seldom increases power but draws upon power without replenishment.

Power is not status either. Status refers to the relative position, rank, or standing that an individual has in the organization. One who stands high in the hierarchy might not have as much power as another with lower rank.

The executive uses status symbols to show that he is both important and powerful. However, the power that appears to come with status is actually a characteristic of the position. Status may symbolize power but it cannot substitute for it.

Popularity is not power. An executive may be powerful, but not generally popular. Genuine executive conflict is rarely settled by a popularity vote.

On the contrary, differences in power usually resolve it.

Authority, status, and popularity cannot meaningfully and usefully exist without the immediate support of power and the ultimate sanction of force. And whatever authority, status, and prestige an executive has can be preserved by his ability to control others who are capable of granting and withholding these important attributes.

How power is acquired

Executive power is generally and most conveniently acquired by unremitting pursuit of it. This pursuit must be honorable and orderly and must recognize the needs and goals of the organization.

Only infrequently does business give power to the executive who does not seek it; nor is it given to the executive who seeks it for his



True power-holders seldom worry whether they are acting with authority

own ends. The ideal is to give power to those who both want it and will use it for the ends of the organization. The individual who does not actively seek power is not typically accustomed to its use and effects. There is little proof that the self-sacrificing individual is more capable of dealing with power than one who actively seeks it.

It is customary in business for the executive to seek more power just as it is for him to wield effectively the power he already has. Power is dynamic and volatile. Because it is ready at any moment to change masters, power is not subject to monopolistic control.

In the business organization every job has a sphere of influence and consequently every job has an effect on the performance of some other job.

In a sense, the holder of a job represents the power of the organization focused in one individual.

This positional power tends toward permanence because the power structure of the organization tends to become fairly fixed over a period of time. This means that positional power is highly predictable. The occupant, no matter who he is, must fulfill certain basic duties and responsibilities.

However, the executive is not a robot who mechanically transmits the power the organization gives him through his position. It takes skill to operate effectively as an agent of power for the organization. This brings into the picture the personal power skills which enable the executive to translate positional power into effective action. Besides using his personal skills to fulfill the obligations of his particular position, he may use them to go beyond his authorized power.

The successful executive is typically not happy with whatever power may go with his office. In fact, we think of a powerful executive as a man whose influence is not circumscribed by a manual of job responsibilities. He creates the greater share of his power by applying his inner resources.

In short, the strong executive not only transmits power, but generates it.

If much ability is required to exercise the power that comes with a position, an even greater ability is required to extend one's power over vast stretches of activity with comparative ease and effectiveness. This is made more difficult by the fact that organizations understandably resist extension of power beyond prescribed limits. If they did not, aggressive executives would quickly build up a number of power camps, each seeking to overcome the others.

Rather than risk crumbling, organizations prefer rigidity, even at the danger of slow death through structural stagnation.

However, the genius of modern organization is that it has built-in rewards that challenge executives to incur the risk that comes with the drive toward expansion. The major reward is power itself.

Even if there were no organizational prohibition against expansion of executive power, there still would be grave risk because of a human tendency jealously to guard one's already acquired power. The typical executive believes there is only so much power to be divided in any organization.

If one individual acquires more power he must take it from someone else.

Actually, the executive may get a bigger slice of the power pie by increasing the total size of the pie, but this fact is not easily demonstrated.

The organization man has found a way to escape this tension-ridden situation. Rather than attempt to extend his personal power against the resistance of others, he attempts to gain power by being promoted to a higher position.

But to go up he must do exactly what his position normally calls for, and not attempt to gain influence beyond this accepted orbit. Consequently, he appears unambitious, loyal, cooperative, and unegotistical. He is, in short, a team man. Naturally, he wants everyone else to play the game his way or the structure might change and thereby reduce his chances for promotion.

This kind of executive never really has a chance to use or develop his inner powers and consequently is never able really to master his organization.

How power is exercised

Closely related to how power is acquired is how it is exercised. This raises the question of what executive power skills are. Power is maintained and increased through exercise. Each form of power activity becomes more perfect by practice.

Naturally, higher uses are more concerned with refined power skills. We often think of power in terms of an executive who throws his weight around. This kind of exercise is common. Power under any name spells domination. But what distinguishes the lower uses from the higher is the degree to which power is disguised.

The most refined power skill is the ability to control others without letting them know it. To make others act as you want is power; to make them want to act your way is supreme power. This is accomplished by making sure the individual sees that certain behavior will result in greater opportunity for him. There need be no actual mention of the specific way he is expected to behave. Rather, making the proper choice is the logical result of the situation in which he finds himself.

This is not persuasion, since there is an implicit threat of some degree. But when this is skillfully done, the individual is under the impression that he is behaving according to his own will.

Less refined is the positive attempt to gain control by holding out hope of reward or fear of punishment. Intimidation is the control of behavior by placing certain of the individual's rights and privileges in jeopardy.

If the truth were known, we would be surprised how much we act according to the aims and wishes of others.

We should not be upset, however, for the fact that so much of what we do is done willingly attests to the success of power and not to its abuse.

A sense of proportion is essential. At any crucial time the exercise of executive power varies in degree and kind. This may be called the power mix. The executive mixes the ingredients of power resources available to him from within and without to meet the requirements of the immediate situation.

The manager may use his superior knowledge, seasoned lightly with prestige or authority, or he may try persuasion blended well with dashes of threat or reward, or any combination. Whatever the occasion, the executive power mix must be sufficiently comprehensive to preserve gains already won and advance causes not yet accepted or sustained.

—EUGENE EMERSON JENNINGS

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continued from page 38

appraisal of your company's policies and practices will probably produce a better understanding of and a greater satisfaction with most of them.

Only after you have clearly recognized a shortcoming or after you have come up with a practicable way of doing something better should you seek a means of expressing your idea.

Dr. Ordway Tead, administrator and educator, says: "What companies want of young executives rising to administrative eminence is not a quiet acceptance of puzzling policy issues as they arise. They want critical and experimental attitudes. They want courage to face up to older men inured in traditional practices."

If your attitude is passive, if you regard the status quo as the best of all possible company worlds—the rust will soon gather on your idea-producing apparatus.

When that happens, the chances are that you will become the man the organization needs for routine tasks, but not for top management responsibilities.

The inquiring approach separates idea men from the dullards. If you are not surveying the scene around you with a view toward improving it, you will probably never see the scene from a higher plateau.

Be flexible

A business leader who, from time to time, sticks uncompromisingly to an idea in which he believes is to be admired. But when he is glued to every one of his opinions, to every one of his ideas, and to every one of his recommendations, he is sure to affect others adversely. As a result he will create a climate of equally stubborn resistance.

Flexibility is required in dealing with the changing circumstances in business.

To be flexible is to have an open mind about ideas—yours as well as those of others. To be flexible is to recognize that there may be several ways to solve the same problem; to understand that at times you cannot go by the book in determining a course of action.

Occasionally, a well meaning executive bent on proving how flexible he is will go too far. Here are some of the telltale signs of the wrong approach:

- In a situation involving Manager Smith and Manager Jones, Vice President Black tells Smith one thing and Jones another. This kind of appeasement leads to administrative collisions.
- Because there is a difference of opinion among his principal aides, Vice President Black keeps putting off a decision that should be made.
- At a staff conference, the vice president allows the participants to talk on and on without limitation, even though they keep repeating the same points.

Flexibility is the middle course between stubbornness and weakness. It is an attitude that influences a top management man to be fair in enforcing the rules and to use common sense in dealing with people.

One of the most valuable by-products of flexibility is growth of mind and spirit.

By listening carefully to ideas, by reading widely both inside and outside your field of specialization, you can add to your information and increase your ability to understand, interpret, evaluate, and lead.

Guide to your attitudes

If you answered "yes" to questions 1 through 7 and "no" to the remaining questions on page 39, your attitudes in the situations described are good. They should be maintained and strengthened. Where your answer indicates an undesirable attitude, you should concentrate on changing it.

After you have read the article on attitudes, study the questions and your answers again. The review will give you added insight into the practical significance of your attitudes.

Be positive

An executive's approach to an assignment has a definite bearing on whether he will carry it out successfully.

His chances for success rise if his approach is affirmative—that is, if he undertakes tasks with the feeling that he can master them. This is not to say that he is an unreasonable optimist or is a happy-go-lucky scatterbrain. Rather, he recognizes that most tasks in business can be accomplished if there is a willingness to analyze them and then organize a plan of attack.

Conversely, the man who says to himself, "This job is too big for me" or "I doubt if I'll be able to solve this problem on my own" or "I can't even figure out where to start" permits his fears and doubts to grow. His chances of logically analyzing the problem diminish.

There is the additional factor of the effect a positive or negative approach has on others. Let us assume that the problem-solving ability of two junior executives is about the same, but that one approaches his assignments positively and the other doesn't. It is only natural that their superior officer will be more inclined to give the tougher assignments and ultimately greater responsibility to the man who responds affirmatively.

The man who constantly complains about the factors that make a problem difficult to solve or an assignment tough to complete will soon convince management that he should not be given weighty responsibilities. As one company president says, "I can always find lightweights to do the easy jobs. What I keep looking for are men who eagerly take on the hard jobs."

It's not wise to assent to every suggestion made or to say that you can successfully complete every mission you are assigned. Certainly it is important to evaluate the possible pitfalls in a project. But if you find yourself quashing every suggestion and continually carping about the obstacles in every assignment, you are displaying a negative attitude.

Be willing to learn

Several top executives of a large metals corporation were discussing the most important attribute of their recently retired president. It was agreed that it was his willingness to listen to the ideas of his associates, to hear them out from beginning to end. Naturally, he did not always agree with their proposals. But he sincerely believed that he could learn from others.

This encouraged subordinates to confer with him. It made him well-liked. As a result, he was able to lead with a minimum of effort.

Executives normally meet hundreds of people in the course of their activities. Many of these encounters are casual and some new acquaintances are neither knowledgeable nor stimulating. But it is just as true that many persons with whom contact is made offer ideas worth listening to. The question is: Are we predisposed to listen?

An attitude of "I know all that I need to know to do my job well"—whether conscious or unconscious—will produce an iron curtain that keeps new ideas from penetrating. On the other hand, if you adopt the

viewpoint that there is much to learn from others, you will find yourself consciously tuning in to what others say and write.

One of the stiffest tests of a good attitude is the executive's willingness to accept personal criticism. Many men who are quite receptive to the ideas and suggestions of their associates are hypersensitive when someone points out a personal fault. The criticism is ignored, laughed off, or violently disputed. Sometimes the recipient is so thick-skinned about criticism that he develops an ability not to hear it at all.

Successful executives don't go out of their way to seek criticism —but they don't run away from it either. What better or faster way to learn than to have another person tell us something we are doing wrong? Experience is a good teacher, but not the only one.

Your attitude with respect to learning from others is vital. Once you believe you can, you will become the beneficiary of an invaluable continuing education.

Be courteous and modest

A position of power sometimes results in a temptation to be brusque and even rude in dealing with subordinates. To some, the temptation is too great. Before long, the raised voice, sarcasm, and abruptness become substitutes for leadership.

The mature executive recognizes that bad manners add nothing to authority. Subordinates may quaver at the sound of the boss's voice or at the sight of his face, but quavering rarely produces a self-reliant, self-propelling worker. In the long run, a subordinate who dislikes his superior will do only what he is required to do, not what he is capable of doing.

Authority is also tarnished when it is accompanied by a lack of modesty. There is no faster way for an executive to lower the morale of his subordinates than to tell them unceasingly how good he is.

Respect yourself

The modern business leader demands and expects respect from his employes, but not servility. The groveling subordinate is as out-of-date as the quill pen.

Yet some executives persist in being servile. The most pitiful extreme in this kind of behavior is exemplified by the man who literally jumps from his chair whenever a higher ranking executive approaches. The trait is particularly unattractive in men of competence and long experience. For them, it is a real stumbling block. As the president of a large equipment-leasing company said about one of his firm's long-time employes: "Jim has the qualifications and experience to take on a bigger post, but he lacks the assertiveness to make a success of it. He's so eager to agree with me that he says yes before I ask the question."

The poise we display in the presence of others, and particularly in our relations with superiors, is an important factor in personal advancement.

It is well to remember that poise is largely a reflection of the respect we have for ourselves. Maintain it at all costs.

Give credit to others

Man's basic desire for recognition is just as valid in business as in other human endeavors—so long as it remains within reasonable bounds.

When the drive for recognition becomes so all-consuming that there is no longer a willingness to share credit with others, it backfires in several ways:

- Associates become reluctant to cooperate on projects because they feel they will receive none of the credit.
- Superiors soon become weary of the man who claims he deserves all the credit for every job he undertakes.
- Most people have a hearty distaste for egotists and prefer to avoid them.
- Recognition is a two-way street. The man who doesn't give recognition to others usually gets as little as possible in return.

The desire to give recognition to others is the mark of a mature individual. Today's successful leader gives credit to other people freely and frequently. Even when it is clear that he could focus all attention on his own contribution, he goes out of his way to praise those who have played some part in the effort.

Be realistic

Nearly all of us engage in wishful thinking from time to time.

But, while a little daydreaming is harmless, a steady dosage can impair our ability to think realistically.

In business, it is dangerous to develop the habit of turning away from reality. Office problems do not get resolved by imagining how

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pleasant the job would be without them. A promotion doesn't come as a result of savoring the reaction of friends to such a prize. An unpleasant relationship with an associate won't disappear by conjuring up a delightful picture without him in it.

At times it may be politic to give someone else a relatively favorable interpretation of an unpleasant situation or an unfavorable development. But self-acceptance of these same rosy interpretations is a snare. The further you stray from reality, the harder it is to get back to it.

Here is a typical example of what happens when an everything-is-rosy attitude prevails: A business manager, addicted to wishful thinking, attributes qualities of persistence, judgment, and competence to

What can business expect from new Congress that will meet in Washington next month? For an informed forward look, turn back to page 35 and read the article entitled "New Congress: What It Will Do"

employes in his division which they do not possess.

On this faulty premise, he conceives and tries to carry out an important project. The task is beyond his employes' abilities. The project fails. In this instance, a realistic attitude would have led the manager to lay aside the project or—more realistically—to find replacements capable of carrying it out.

It is bad enough when we allow other people to fool us, but certainly far worse when we fool ourselves.

Take other fellow's point of view

Whether we do well in human relations depends greatly on our attitudes toward the various persons with whom we come in contact—toward newcomers to the company, toward business competitors, toward

outside consultants, toward technicians, toward older men, toward women in business, toward nationals of other countries.

Looking at things from the other fellow's point of view involves more than comprehending what he says or does; it means trying to understand why he says or does it.

If we can appreciate, for example, why an associate who has been with the company 40 years resists a new idea, we will not only get along with him better but improve our chances of selling the idea. During the next 24 hours, try this test. In each personal contact, look between the lines of the conversation to determine the other person's motive, his aim, his background, and his position in relation to your own. You will find that almost every personal encounter has an important dimension under the surface.

Once you develop the knack of examining problems and relationships from the other person's point of view, you will be able to work with him much more effectively.

A word of caution:

It is foolhardy to suppose that it is possible to get along with everyone you meet or even that it is worth while to do so.

On more than one occasion you will bump into someone whose words or actions are completely ineffectual or unbecoming. If, after examining the reasons for his conduct you find no extenuating circumstances, you can probably use your time more profitably in winning other friends and influencing other people.

The points made above have probed vital attitudes. If your self-test has revealed weaknesses in your attitudes, you have uncovered a personal obstacle course, but one which you can do something about. Try it. And then take this same test in six months to see how much you have changed your attitudes, and in the process, yourself.

Remember, wherever you are, whatever job you are doing, whomever you are dealing with, and whatever your aspirations are—your attitudes are showing. Put them to work for you.

—HOWARD R. DRESSNER
Assistant Vice President
New York University

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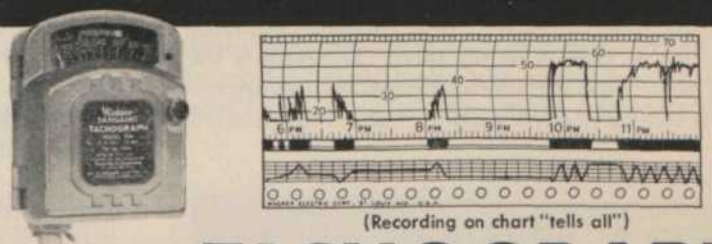
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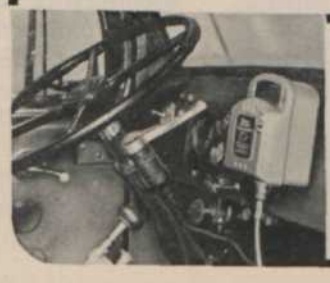
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FIND INDISPENSABLE MAN—THEN FIRE HIM

A startling suggestion? Here's reason why you should follow it

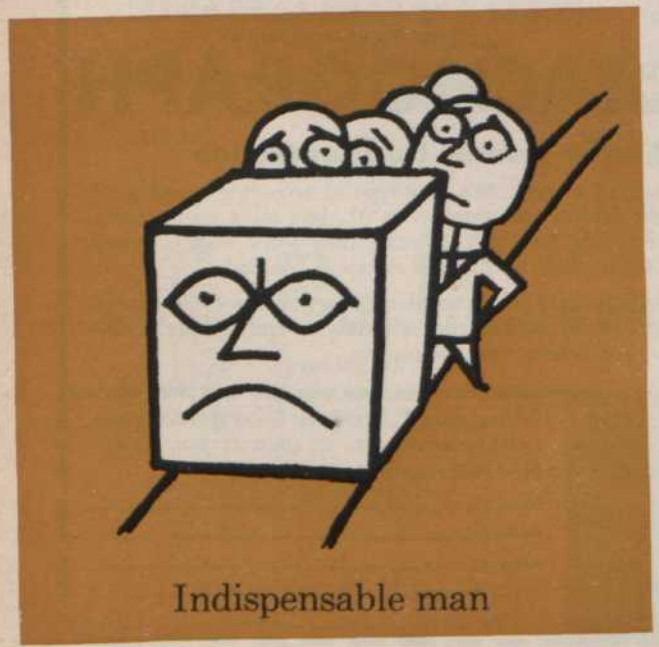
ONE OF THE biggest blocks to maximum performance is the businessman who, by making himself indispensable, thwarts the initiative and productivity of those working under him.

It's management's job to:

- Find the indispensables.
- Understand why they are more of a harm than a help.
- Reform them—or discharge them.

Find the Indispensable Man

The first thing you must realize is that in searching out the indispensables you are not looking for monsters. So-called indispensable men are basically good people. They are typically hard workers, people who are fully competent in their fields—sometimes unusually so. The rub is that they delegate too little responsibility to people under them. This stunts the growth of their subordinates and deprives the organization of a vitally needed supply of able and promotable personnel. The indispensable also blocks his own promotion because he develops no one who can move up to his job.



Indispensable man

What are the characteristics of the indispensable man?

He's the fellow who knows everything. He has all the answers, usually in detail. Nobody else knows—simply because he confides in no one beneath him. He parcels out work in fragments so that no one else gets the broad view. This practice may not be consciously Machiavellian. Frequently, however, it is deeply rooted in habit because it has gone unchallenged or the practitioner has had no time for reflection and self-criticism.

When the indispensable man does delegate, he usually goes through the form but holds back the substance.

His view of the matter is simple and direct. Why should he delegate something to a subordinate if he can do it better—and perhaps faster?

The indispensable man is surrounded by the utterly dispensable. Who needs talent? What he wants is a first-class messenger service—errands competently dispatched, routines faithfully executed.

Why he is harmful

Typically, the indispensable man's personal relationships on the job are poor. His pre-eminence, his splendid isolation, breed an arrogance, an impatience toward subordinates that is revealed in many subtle and some obvious ways. Peremptory correction of a colleague in an open meeting usually heads the indictment. But this is matched by scorn on all occasions for ill-formed ideas or inadequate proposals. Of course, he seldom gets anything else from his subordinates since no one else knows what he knows.

The indispensable man thus succeeds in creating a permanent level of mediocrity around himself. Clearly no one can succeed him, no one can take over his major responsibilities since no one has ever fully shared any one of them.

In the long run, an executive can succeed only if he liberates the creative energies of others. Today's business needs to mobilize and draw upon all its

resources, especially the ingenuity, intelligence and enthusiasm of its people.

Consider the administrative officer in a wartime emergency agency who asked for an assistant. The only qualification standard he could give was that he wanted a man just like himself "of 20 years ago." This man could tolerate no competition. His associates had to be younger and less experienced, and they must not entertain novel concepts of how a job might be done. For a time he was indispensable—an administrative Gulliver in a land of Lilliputians. Of course, this monopoly didn't survive because in fact his knowledge was not unique, only in momentary short supply. Government is not unusual in this respect; it isn't even dramatic compared to some business situations. Since we have defined the indispensable man as the supervisor who knows all and doesn't delegate and doesn't teach, you may want to choose your own examples. Here are others:

In one company there is an indispensable man who, among other responsibilities, assembles an advertising budget from several section chiefs. He subsequently participates with top management in establishing the final budget figures. After the budget is set, he informs his subordinates that such-and-such budgets are approved. So far so good. But now back to limbo again. Despite the general planning which goes on simultaneously, each of his subordinates must send up for advance approval every proposed expenditure, regardless of the amount involved. The subsequent voucher for payment follows the same route. Thus our indispensable man is well informed and in control, but he has taken his own time to approve three times—and in fragments—what he once approved as a coherent whole.

This is patently a waste of time. Unfortunately, it is much more a waste of people. While he has made himself feel important and needed—in short, indispensable—he has downgraded his subordinates to the level of senior clerks and has succeeded in making them feel insignificant. Moreover, he has kept his subordinates in a state of irritation or apathy, although presumably they are somehow to be creative managers of their particular programs.

Consider the case of the indispensable industrialist who never puts a man into a management job until he is convinced that he is absolutely ready. On the surface this seems a proper position for a manager to take. The fact is, however, that someone's being ready to the satisfaction of this industrialist means that he has fully demonstrated his competence to do that particular job before he gets the assignment. Now, a man cannot do a job until he is in it and in fact has the responsibility. To ask him to prove conclusively that he can do it in advance is to build a bridge almost impossible to cross.

It is axiomatic that people learn faster in a live situation than from observation, even with some coaching. Indeed, the same amount of coaching given to the man on the job, as opposed to coaching him on the sidelines, would bring him along much faster. But most important, the majority of people rise to responsibility and it is the loss of their enthusiasm and resourcefulness which constitutes the real penalty for tolerating the indispensable man.

This is the situation created by the indispensable industrialist. Aside from the delayed utilization of talent which his approach requires, it also becomes necessary for him personally to accept the responsibility and to perform the tasks that at least another half dozen people ought to be doing. The fact that he is both better qualified and a better practitioner does not make up for the geometric increase in the total effect that could have been created by the utilization of the six less experienced managers under his guidance and with his occasional participation in the really major items.

There are other drains on the organization's resources that flow from the mother-hen approach. Notable among these are the delayed hopes and the frustrations of those who are only partially participating, those who are standing by against the day when, by some miracle, they are qualified. All of us know, because at one time or another we have experienced it, that the sense of accomplishment is the greatest reward that any person in a working or artistic situation can achieve. Achieving this sense of accomplishment has become the goal of all who work in a setting such as the modern company.

Because it is increasingly difficult to achieve in our complex society, the really perceptive manager would extend special efforts to make it possible. By limiting the opportunities of his people to achieve this sense of accomplishment, the indispensable man is robbing both himself and his subordinates. They lose the satisfaction of a job with genuine responsibility, and he loses the maximum effort of his group.

How to remedy the problem

The indispensable man is a fairly common phenomenon. From this fact you might suppose that ways of coping with the problem had been well explored. This is not particularly true, and the reason again is obvious. The indispensable man is also likely to be the unapproachable man. The same characteristics which make him operate as he does also tend to isolate him from those relationships which,



One-man show

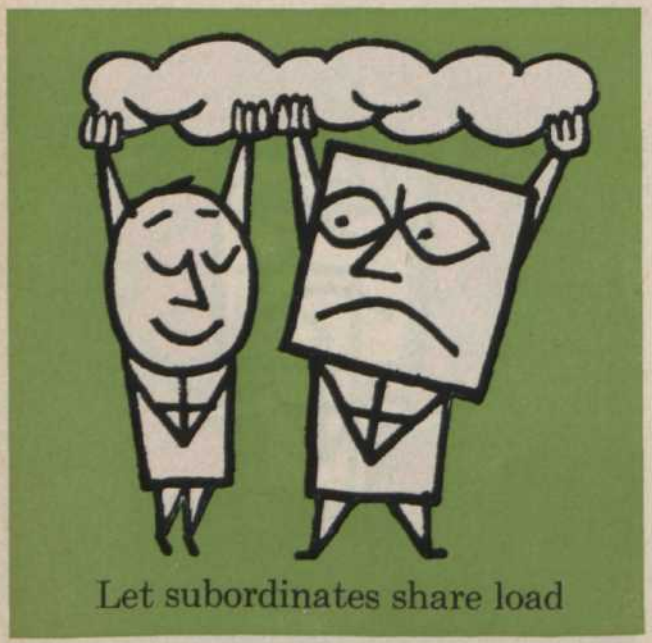
if they had been effective and genuine to begin with, would have made him a different kind of person. The problem is how to reach the mind and understanding and even the heart of the indispensable man.

The first step is to find the means to make him feel secure. It may seem paradoxical, but the typically indispensable man is psychologically quite insecure. One of the reasons he surrounds himself with relatively mediocre people, or at least with people who lack the courage to challenge him, is to maintain this relative position of pre-eminence. Again, his drive to know everything in great detail and to control everything is similarly based. Thus, the first task in reaching him is to make clear that you do not want to challenge his position and his valuable contributions to the group but only to make him more effective.

Normally, this can be done only by the man's superior. But, of course, you have a special problem where the indispensable man is the top man. Then the task must be undertaken by someone who does not have a direct personal stake in the outcome; for example, an outside management consultant, or a member of a central planning staff, could undertake the assignment. The trick is to make the man understand that nobody—and particularly the man who is doing the coaching—wants his job.

What he wants to do is prepare the indispensable man for more responsibility through sharing the responsibility he already has. An instructive parallel can be found: Each manager stands on the shoulders of the managers beneath him, and if he keeps these managers depressed and ineffective, then he, too, is low. If he raises them to the highest possible degree, he then stands that much higher above them.

Coaching the indispensable man to share his responsibility means first making an inventory of the things he does personally; segregating these things into manageable and homogeneous units; then delegating these tasks to appropriate subordinates and effecting that delegation in such a manner as to include due dates for the completion of the work or standards of accomplishment so that the indispensable man can see in a concrete fashion that the task is in fact done, and—probably to his surprise—done well.



Let subordinates share load

The second step in the effort to double the value of the indispensable man is to find the means of helping him to see himself as others see him. This isn't easy and not many people like the job of belling the cat, but there are outside resources that sometimes can be used most profitably.

Some of the American Management Association seminars are directed toward this purpose, and more particularly some of the efforts of the behavioral scientists, notably the National Training Laboratories group, which puts on a management seminar for executives at Arden House each year. If possible, the indispensable man should be talked into attending such a session for two reasons: First, the intrinsic merit of the session itself is what he needs. Second, he will find that the organization hasn't collapsed during his absence.

About three years ago an eastern railroad had several of its top people, including a line superintendent, in New York at an AMA seminar. During this time there was a derailment on the line. The immediate reaction of the line supervisor can easily be imagined, but he was under firm instructions to stay in the seminar no matter what happened, and he did.

To his surprise, and subsequently to his real pleasure, he discovered that the assistant superintendent was a fully competent man who handled the incident with dispatch and got the trains back on the track and on schedule. Now the indispensable man could in fact look forward to promotion, because circumstances had forced him to recognize that someone beneath him was fully competent.

These efforts to get the indispensable man to see himself as really a leader, not as an indispensable man, to see himself as a person who can multiply his effectiveness if he doesn't try to do everything himself, sometimes fail. What do you do then?

Then there is no choice but to tell the man he is dispensable, that you don't need him. If you fail to make this hard decision, you are then making another decision that is more disastrous—you are agreeing to block the creative talents of the group as a whole.

There are people who prefer a violin solo to a symphony, and we have no quarrel with their artistic preferences. The fact remains that in business the indispensable man can remain so only at terrific cost to others—cost in the effective use of creative talent, cost in the frustration and deep annoyance that already give our big society its ulcer character, and cost finally for the hardheaded businessman in actual profits—because no one man can exploit every opportunity open to business. In summary, either cure the indispensable man or get rid of him.

—E. H. BELLOWS
Director of Personnel,
Olin Mathieson Chemical Corp.

REPRINTS *of "Find Indispensable Man—Then Fire Him" may be obtained for 10 cents a copy or $7.00 per 100 postpaid from Nation's Business, 1615 H. St. N. W., Washington 6, D. C. Please enclose remittance.*

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NEW CONGRESS

continued from page 37

and Congress face the danger of generating international fears about the soundness of the dollar and further problems with the outflow of our gold, if fiscal and monetary policies are sharply changed.

The promises to get a higher rate of economic growth by greatly accelerated public spending signal strong inflationary pressures, which would further weaken the dollar or create demands for new governmental controls.

Social

Three times, in as many Congresses, attempts have been made and have failed to enact a program of federal grants for school construction.

In the last Congress both houses passed such legislation, but the House Rules Committee refused to let the differing bills go to a conference committee to work out a compromise.

The prospect for passage of multimillion dollar federal grants for school construction seems probable in 1961 despite the fact that local communities by themselves have largely licked what was a critical shortage of facilities a few years ago. The school legislation also may include provisions for raising teachers' pay.

In the past decade spending for schools has tripled, teachers' pay has gone up 50 per cent.

Enrollments are expected to increase only about half as fast in the latter part of the 1960's as during the late 1950's. Rising school bond sales indicate more schools for the future, too. However, these facts are being submerged in the rush to make good on long-standing political promises for federal school construction.

The National Defense Education Act of 1958, providing for student loans, fellowships and foreign language training, will probably be extended and enlarged, but not until 1962.

New college mortgage loan and scholarship proposals will be advanced.

An immediate move is likely—depending somewhat on the shape of the economy—to give home building an injection of federal credit stimulants. Special mortgage assistance, government guarantees to provide lower interest rates and longer term mortgages with low down payments, and perhaps direct government loans, may be made available to nudge builders to put up more low and middle income housing.

Not only could this be a means for giving a quick boost to a big but frequently slack segment of the economy, it could make a start toward the Democratic platform goal of "two million homes a year in wholesome neighborhoods."

One major legislative objective, particularly of big-city liberals, is to establish a new Cabinet-rank Department of Urban and Metropolitan Affairs to administer metropolitan planning and expanded community facilities. Sen. Joseph Clark, Democrat of Pennsylvania, would call it a Department of Housing and Metropolitan Affairs. Others envision a "Department of Urbiculture."

An omnibus housing bill incorporating larger subsidies for public housing, college housing, housing for the elderly, and urban renewal will probably get action next year even if the more ambitious plans for a new department fail.

Two events outside of Congress may help the advocates of expanding the social security system to pay medical care costs of the aged. A White House Conference on Aging will be held next month and the national debate topic for college students this school year involves the question of need for universal compulsory health care for all Americans.

Medical care for the elderly was a top issue in the last Congress. The lawmakers finally passed a federal-state program providing more money for health care under public assistance programs for the indigent and new sharing grants to states that set up medical programs for sometimes needy aged not on relief.

Some Democrats, including President-elect Kennedy, fought unsuccessfully to let those eligible to receive social security benefits get hospital nursing home and surgical care. This was to be financed by

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Nation's Business

raising the present social security tax on employers and employes.

A new drive to enact compulsory health care under social security will begin in 1961, but there is little chance of final passage next year. Many members of Congress will want to give the 1960 law time to work. And social security legislation traditionally is passed only in election years. Passage may come in 1962 unless the viewpoint of those favoring private, free and voluntary choice of health care protection can thwart the liberals' drive. An expected move to raise the present $4,800 base for the social security tax probably will also be put off until 1962.

Attempts will probably be made next year to pass federal legislation aimed at the problem of juvenile delinquency. Those who want to center more and more authority in the federal government lump this in with national problems on the grounds that it is a problem in localities all over the country. The Senate, in 1959, passed a bill to set up a Youth Conservation Corps, which ironically prescribed that the corps should be composed of young citizens "of good moral character," a trait not typical of delinquents.

Defense and foreign aid

Defense spending will be increased in 1961. Some procurement of short lead-time military hardware will be made partly to pump up more business activity. More money probably will be spent on long-range defense programs such as production of Polaris missile submarines, development of the Minuteman intercontinental missile, improving the Strategic Air Command and making the Army and Marine Corps more mobile.

Spending for space exploration will continue at an accelerating rate.

The Kennedy Administration might recommend changes in the defense organization dividing the armed forces according to functions and missions, but it is doubtful the services will be combined in the foreseeable future.

Economic foreign aid will be pushed, more than military aid, together with a multination approach to aid for underdeveloped countries. Agricultural crop surpluses will probably be used more as a tool of foreign policy—perhaps in the form of "food banks" in backward lands.

Exports from the United States surely will be encouraged and attempts will be made to lower barriers to American products abroad to improve our balance of payments situation. However, reciprocal trade agreements won't become a major congressional issue until 1962, when extension of present law will be considered.

Farm and resources

Agriculture faces new government controls to keep production in line with demand.

Though only a fraction of the 255 commodities produced in the country are under price supports, the cost for these supports is now nearly $8 billion a year. And still the farmers' income shrinks.

Mr. Kennedy has proposed a "supply management" approach to agriculture which would attempt to limit production to demand and stop rising surpluses. Farmers would restrict what they produce through quotas, marketing agreements, government purchases, or crop loans. This supposedly would assure farmers a greater return for their produce and just as surely would mean higher food prices.

What will Congress decide to do about agriculture in 1961? It undoubtedly will continue some sort of controls. And it surely will try to get rid of surpluses through domestic welfare programs and foreign sales or give-away programs to take the heat off solving the gigantic crop glut.

A start may be made on developing a national water resources policy involving a plan for each major water basin for multipurpose dams, hydroelectric facilities, flood control and reclamation. Federal transmission lines probably will be built to connect generating facilities in widely scattered sections to enlarge government power operations in the nation.

Authorization likely will be increased for federal grants to local communities for sewage disposal facilities to control water pollution.

Regulation

If inflation becomes a problem in 1961, the threat of new regulations for business will quickly follow.

A Department of Consumers that would judge the fairness of prices or selling practices seems unlikely to be created in the foreseeable future. However, if prices rise sharply next year, legislation may be passed to force corporations in major industries to give the government advance notice of proposed price increases and wait for public hearings to justify the boosts. Or legislation might be passed to require the President or some federal agency to hold hearings on price or wage increases which appear to threaten economic stability.

Backers of such bills contend that some industries have concentrated so much power they are able to "administer" prices, in other words to keep them high and thereby contribute to inflation. These same legislators tend to overlook the economic power of union labor and its effect on prices.

Expanding consumer credit could lead to legislation, also offered in the last Congress, to require business to give written explanations of carrying charges customers must pay when they buy something on the installment plan.

Less likely to pass is legislation to make companies that plan to merge give the federal government advance notice of the merger.

Veterans

Passage seems possible for two highly expensive bills aimed at pleasing veterans, who, with their families, make up about 45 per cent of the population.

One bill, passed last year by the Senate, would provide education and home and farm loan guarantees for ex-servicemen who served only in peacetime. This peacetime G. I. Bill would cost about $2 billion over five years if enacted.

The other proposal, incorporated in numerous bills in the last Congress, would provide a $100-a-month pension for all World War I veterans regardless of age or need. For the estimated remaining lifetime of these veterans, cost of the program would reach about $27 billion.

Transportation

Congress must decide in 1961 whether the nation's multibillion dollar highway construction program has to be stretched out, continued or cut back in size. High costs and financing tangles make this a hot issue. Cost estimates for the future will be reported to Congress early in the session. Congress probably won't raise the tax on gasoline, which now averages about 10 cents on a gallon in both federal and state levies.

The Democrats promise a national transportation policy aimed at coordinating and modernizing our road, rail, water and air transport facilities. Probably more federal money will be provided for airports. Railroads may see some relief from heavy regulation, and money may be provided for urban mass transit. **END**

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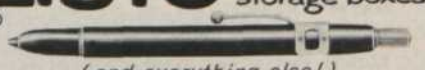
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POWER SOURCES

continued from page 72

erator. Thus, one expert observes, "the electric generator of tomorrow may have at its core a short, narrow, tubular tunnel filled with rushing plasma, encased in magnetic coils running at right angles to the plasma flow."

It has been estimated that one million watts may be generated by plasma moving at three times the speed of sound through a magnetic field only three feet long and with magnetic poles six inches apart.

The plasma generator promises to be relatively small, compact, rugged, inexpensive to build, and to operate 15 or 20 per cent more efficiently than the best generators today. Its drawbacks are that it must operate at temperatures of 4,000-plus degrees Fahrenheit, which creates materials difficulties, and that considerable energy must be employed to produce and accelerate the plasma.

However, definite progress has been made in developing high-temperature materials, and ways of capturing and reusing much of the heat needed to produce the plasma have already proved feasible.

When the concept becomes marketable the plasma generator should find its way into any field which requires either stationary or auxiliary power generators. In addition, it may be possible to develop a small generator which could be used in many places beside the factory or power plant.

So promising is plasma research that 300 American laboratories are reported active in it, and ten public utilities in the East and Midwest have joined with outstanding plasma researchers to speed its evolution. Pilot models already built have produced more than 10,000 watts and those in the design stage are scaled up to 500,000 watts.

Work also continues on two other potential sources of electric power —solar energy and photoelectric power. The former captures the energy of the sun's rays and either converts it directly into electric power or stores the energy in batteries for future use. But the system presently depends on direct sunlight, and storage capacities are severely limited.

Photoelectric power utilizes the photon, a unit of electromagnetic energy with many of the characteristics of light. Thus far, however, scientists have not been able to make it accomplish much useful work.—PHILIP B. YEAGER

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Executive Trends

Seminars lead as self-improvement tool

Most executives planning specific programs for self-improvement in the coming year will rely on participation in management seminars as a means of accomplishing this end.

This is indicated by answers to a question in a new NATION'S BUSINESS survey of top managers in a cross section of U. S. business and industry (see page 44).

Seminars mentioned included the in-plant variety, programs sponsored by the American Management Association, and special seminars offered by universities.

Slightly more than half the executives participating in the survey said they plan no special self-improvement programs in 1961, or implied as much by letting the question go unanswered.

▶ The second most popular tool for self-improvement, judging from the survey replies, is "reading"—both in specialized fields of business and in more general areas. Other techniques which were noted include the use of consultants, business travel, studying the operations of competitors, or a combination of business reading and participation in seminars.

A job that never ends

Running through the replies to the NATION'S BUSINESS survey question on self-improvement (above) was a common theme: Self-improvement is a process which you can never really terminate.

The president of a major computer manufacturing company expressed that idea this way: "Improvement is a constant on-the-job process which includes reading, listening and discussing problems with executives and others—both internally and externally."

Another businessman—head of a company in the petrochemical field—said he would use both reading and seminar participation to sharpen his skills in '61. "Otherwise," he observed, "I should be replaced." An airline president had a direct answer: "[My] self-improvement program has been going on for 45 years."

▶ The pressures of time were reflected in answers to the question. "I do all the reading I can," reported board chairman. "I'm going to plan more time to think and plan," said the president of an apparel manufacturing concern. The chief executive of a petroleum company said he averages one book a month and also reads extensively in business periodicals. His formula, apparently, is to *make* the time needed for self-improvement.

Job shifting shows faith in economy

Despite the current business decline and some misgivings about the

prospects for 1961, executives continue to show a willingness to change jobs.

"This willingness to assume the risks of switching from one company to another is a good sign that U. S. businessmen have a basic faith in the economy's future," says William A. Hertan, president of Executive Manpower Corporation, New York recruiting firm.

Mr. Hertan says a great deal of job shifting is going on at present. Its principle impetus, he says, is the desire for increased pay and more favorable executive benefits. "The idea that executives make job changes to take on greater challenges has been somewhat overplayed," Mr. Hertan says. "Higher pay is still the biggest mover of men."

► One of the knottiest problems in the field of executive hiring is that of finding men who will move their families to towns of less than 10,000 population. "The social readjustment is a real stumbling block," Mr. Hertan explains. "Most people reared in metropolitan areas simply don't want to change their living habits, and small communities—particularly one-company communities—make such a change inescapable." The problem cuts both ways: It's equally difficult to persuade executives to move from smaller communities to such metropolitan giants as New York, Chicago and Los Angeles.

How to get more from meetings

The men who run business conferences should do their best not to influence the thinking of participants.

This conclusion is one of several key findings in a recent study of the use of conferences by American business. The study was conducted by the National Industrial Conference Board.

NICB found that the discussion leader's role is the key to whether meetings prove fruitful or fruitless. The good conference leader exercises tight control of the meeting but does not dominate discussion. He keeps the group in order, on the subject, and moving toward a well established goal. But he avoids making direct statements that could inhibit discussion and uses instead questions that encourage sound thinking and free expression.

► There are times when a meeting is the wrong way to handle a business problem. The conference should be used only when you truly want to get the pooled ideas of others as a means of solving a problem. NICB's study shows that executives who use consultation as a technique of management find a marked increase in morale because of the interest and personal involvement of others in decisions that affect them.

Keep retirees working for you

Many companies are taking steps to develop attitudes in their retired employes that will keep such people working as ambassadors of good will long after they have left the active ranks.

A New York public relations firm specializing in "image management," suggests specific postretirement ideas which companies can adopt. The firm (The Mermey Organization) says the steps are badly needed, since too many organizations either have no postretirement programs, or pay only lip service to the function.

Of the steps recommended, the first is to put retirees on mailing lists for annual reports and other vital company literature.

► Other steps suggested are these: Have company counselor make personal and intelligently planned calls on retirees; encourage retirees to use the company's consultation services; show an interest in the physical well-being of retirees by encouraging them to return for annual check-ups by company doctors; maintain a clearinghouse for part-time and seasonal jobs.



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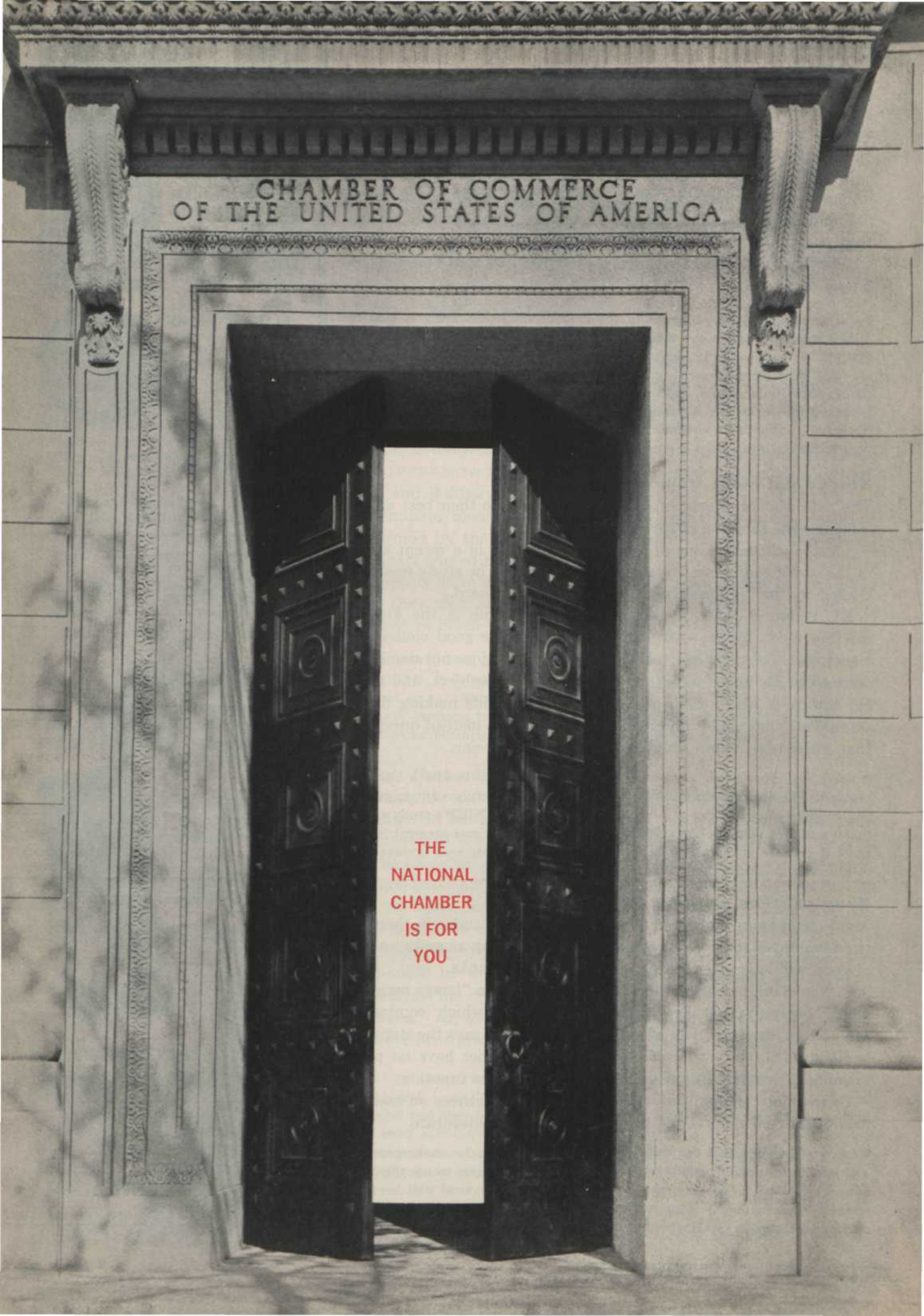


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2. POLICY—The Chamber determines where business in general stands on national issues—and specifically what the business community recommends should be done to resolve national problems, and to keep the economy dynamic and expanding.

3. RESPONSIBILITY—The Chamber keeps its members fully and accurately informed about legislative issues and proposals. It shows its members how to become more responsible citizens—and this does not mean merely how to work for sound national policy, but also how to assume responsibility for solving local and other problems, so as to eliminate the need, or the excuse, for more federal control.

4. ACTION—Through its Legislative Department, the Chamber lets Congress know where business stands on legislative proposals affecting the economy, and shows why the recommendations of business are in the public interest. Through its nation-wide network of local Congressional Action Committees, the Chamber equips and encourages local businessmen to communicate with their elected representatives in Washington, and to give them informed views on current issues.

5. SERVICE—The Chamber helps America's voluntary organizations of businessmen grow in usefulness, each in its own field and on the national scene.

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IN RUSSIA

continued from page 41

"it gives the key officers in the plant independence from the plant manager; for another, this is the law."

Stress on control

On all levels of the Russian industrial bureaucracy the presumption seems to be that the lower level is certain to go astray unless all its activities are minutely guided and checked.

About a year ago, Premier Nikita Khrushchev introduced another element into plant management. His latest move, in practice, pits the communist party cell within each plant against the manager. These shop committees are instructed to report to party authorities regarding the condition of the production equipment in the plant; the introduction of new models of final product; fulfillment of important state orders; prompt delivery of supplies outside the region; quality of product intended for export.

The list is long, and still growing. Small wonder that a few cautious newspaper editorials have begun to appear suggesting that "in some enterprises the party committees are actually taking over the function of management rather than checking and controlling its work."

Of all the pressures he has to contend with, the bane of the Soviet manager's existence is the unreliable supply system. Planners in Moscow claim that the orders they give for the flow of materials and accessories from plant to plant produce better results than the market mechanism. Against his better knowledge, the manager has to pay lip service to this myth. In reality, however, he is its chief victim.

True, the manager's bonus goes up with each percentage point of overfulfillment. But all other plants are also under pressure to overproduce. There is, therefore, a chronic sellers' market for most supplies. Getting enough materials of the necessary quality, and at the scheduled time, and by the cheapest route, consumes most of his energies.

Because there is no open market, the manager cannot buy supplies simply on the basis of his ability to pay. Essential materials are allocated centrally. At present, about 1,200 are distributed by quota.

Hence, the plant must have an authorization, called a "fund," from the planning authorities. If the plant is an important unit in a priority industry, chances are that its fund will be honored. But a manager in a nonstrategic industry may receive a fund, and still have to scrounge for a supplier.

As one example, a Moscow printing machinery plant producing an electric engraving press has been seeking a regular supply of small motors for three years. No amount of letter-writing or formal requisitions helped. To this day the manager has to buy these motors, for cash, through retail stores; they are mostly motors intended for vacuum cleaners. Because his plant does not belong to a priority industry, his designated supplier refused to fill the order on the grounds that he was overloaded with requests from more essential customers.

Role of the "pusher"

Over the years, Soviet managers have devised their own system to obtain supplies. They employ a staff of so-called "pushers" who, in one disguise or another, take to the road to expedite the flow of materials to their plant.

The official press fumes against the employment of such human props to shore up the scientific planning system. Party resolutions, too, regularly order the pushers to disappear. As long as they help to make the wheels go round, however, they continue to be tolerated. There is only one unwritten rule: Pushers must be kept from the attention of inspectors.

Hence, whenever possible, the manager tries to dovetail his use of the pusher with some current government campaign in production. Right now managers are being exhorted to search for new production methods, to study carefully what other plants are doing. A campaign of this sort offers the manager a side door by which he can try to resolve some of his supply problems.

However, somebody gets caught, and the press breaks out in indignation. An inspector, fresh from a field trip in July, offered among others, the following firsthand observations:

"The Dynamo electrical machinery plant in Moscow was visited during 1959 by 2,187 outsiders, identified as students of advanced production methods, but who turned out to be disguised pushers bent on rounding up some scarce supplies.

"The Lipetsk tubing plant also received a rush of visitors to see its latest techniques. But 59 of these proved to be pushers, out to make friends with the shipping staff through their elastic expense accounts.

"A plant that makes automatic presses in Chimkent sent out a team of pushers to pick up all the motors they could as quickly as possible. To save time, the heavy motors were shipped by plane, contrary to regulations. Pressed for an explanation, the plant manager argued that, in the long run, the expensive transportation was economical because it prevented a halt in the whole production line."

Further complicating the life of the Soviet manager is the fact that the directives he gets are not only detailed and rigid, but often in conflict. He is pressed, for example, to meet his production target but he is warned against exceeding the planned outlay on wages. Similarly, he is directed to reduce production costs. Yet, he is not free to choose his subcontractors.

Generally, the plant manager finds it impossible to operate without a large machine shop of his own to manufacture such standard parts as nuts, bolts, screws, and auger bits. In the patchwork supply system such standard accessories are a source of endless headaches.

During our visit to Leningrad the manager of a large electrical equipment plant showed us a nearly completed five-story building right on the grounds, which integrates the parts production now scattered over a cluster of small shops.

Other headaches

Replacements are also a problem. The manager whose few trucks are wearing out may need new ones. But a decision based on need will not get him any.

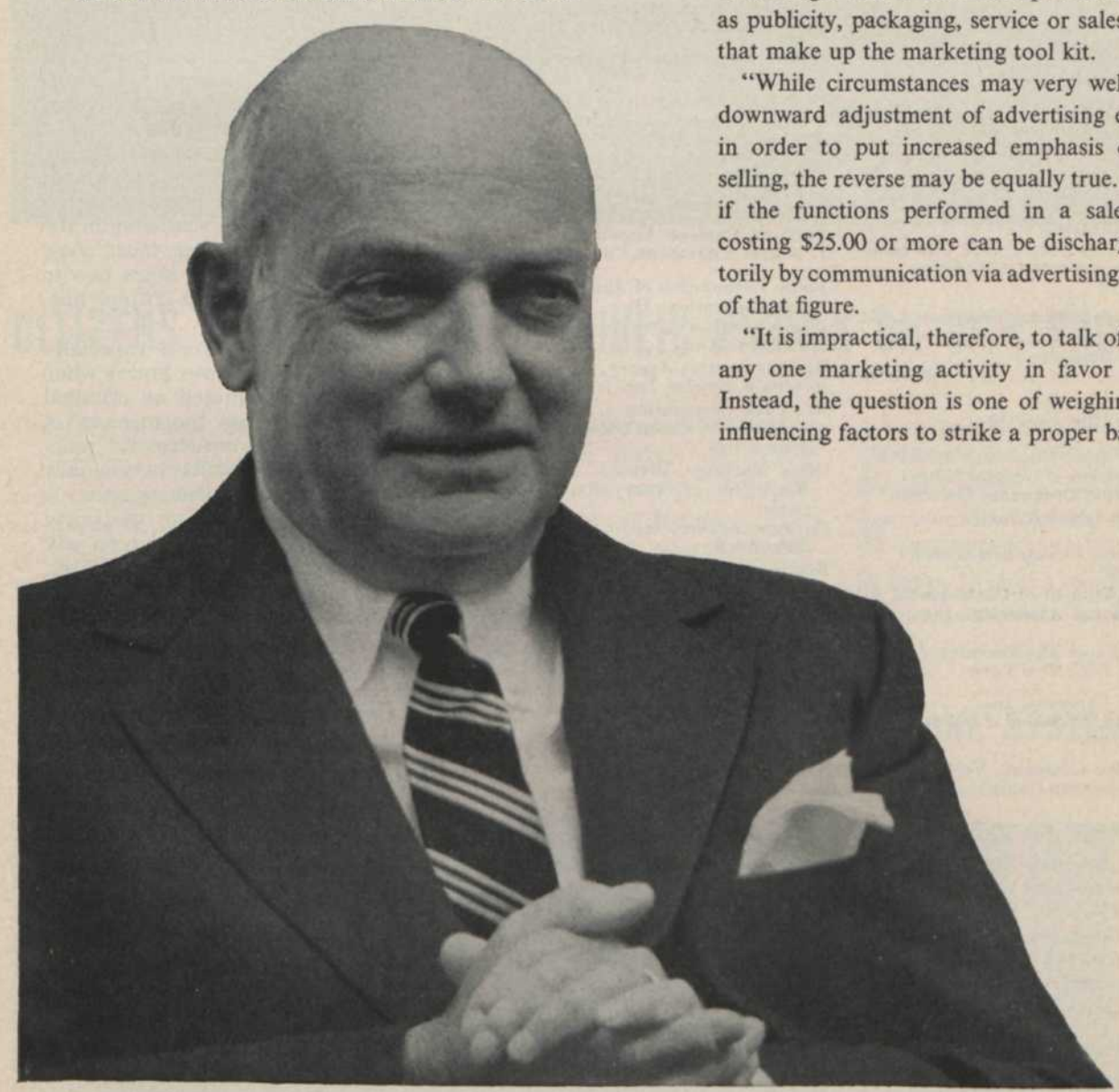
New trucks are produced according to the plan; they cannot be obtained without a fund. What is more, the manager would need a capital allocation.

To do repair work, he has his annual depreciation fund. He finds it easier, therefore, to patch up his trucks, regardless of the cost. We learned in Moscow that the average cost of repairing a truck in the USSR runs two to three times higher than the cost of a new vehicle. The scale of truck repair is so large that it takes out of the running, every year, some 40 per cent of the country's truck inventory.

New production may be the answer, but the first goal of the plan is to channel steel and machinery to strategic industries. Accordingly, the planners keep truck production low (only 370,000 in 1959) to allow forced-rate building of submarines

"Why not cut out advertising and use the money to hire more salesmen?"

ROBERT HELLER, for 30 years a consultant to management of leading industrial firms and head of Robert Heller & Associates, Inc., Cleveland, answers a question that has crossed the minds of countless business executives.



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IN RUSSIA

continued

and other weapons that bring higher political dividends.

These, however, are minor hazards compared to the conflict in which the manager finds himself because of new technology. He is under steady compulsion to force his monthly output as high as he can. In addition, his bonus is geared to overproduction. At the same time, he must use the latest production processes and methods and turn out products of the latest technology.

To meet his volume targets, he must keep the production line working without interruption. A new production process, or a new model, necessarily involves a stoppage. At the least, this reduces his bonus pay. He is thus strongly motivated to resist drastic changes.

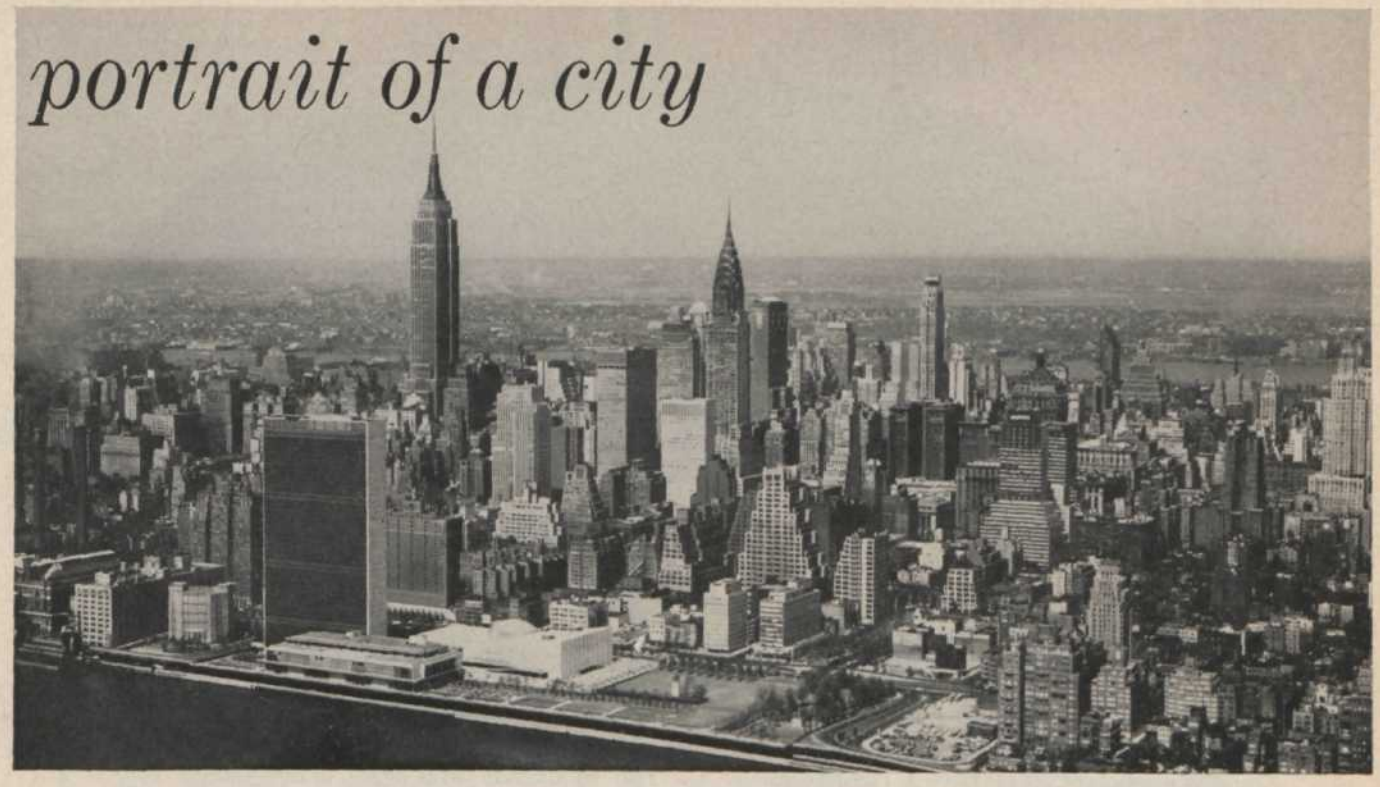
The price of failure goes far beyond the mere loss of bonus pay. His job and all the perquisites that go with it are always hanging in the balance. His superiors must show that they are ruthless, know how to act promptly, how to correct mistakes quickly.

The risk of failure is especially great because he never knows when it may be interpreted as criminal negligence. Within the memory of Russian adults, unsuccessful managers were judged guilty of economic crimes, arrested, exiled, or shot.

In their own fashion, the party chieftains in the Soviet Union pay the manager a dubious compliment. In effect, they tell him that he is the pivotal figure in the all-important economic operation on which their own political power is based. He is in direct charge of a set of valuable assets. And the uses to which the party intends to put them are not purely economic. It is, therefore, impossible for the manager to guide the destiny of his plant with dignity and independence. If they were freed from the intricate control system, the party command fears, the managers might create a national economic climate in which goods were produced in response to consumer demand rather than political commands.

Such a development would not give the Russian rulers what they require for pursuing their offensive against the free world.

The author, Leon M. Herman, recently returned from a four-week tour of six major Russian industrial centers as one of a six-man team of U. S. economists.



CITIZENS, OFFICIALS PRAISE PUBLIC PHONES ON CITY PROPERTY

The City Is New York.

Just a few months ago, the first outdoor telephone was installed on city property. By the end of this year the citizens of New York will be able to telephone from more than 700 convenient booths, located at key points in Manhattan.

This new program was designed to bring to New Yorkers the safety, convenience and service of round-the-clock telephone facilities.

To their elected officials, public telephones mean a welcome and substantial addition to the municipal revenue.

Perhaps your community can benefit from the same kind of custom-designed public telephone program. For more information, call your local Bell Telephone manager. He'll be happy to send a representative to outline an outdoor telephone plan to suit your needs.

BELL TELEPHONE SYSTEM



THIS ELECTION MAY YET BE LOST

WE HAVE HIRED some new workers for the formidable job of running the government.

From them we have a right to expect sound performance.

Equally important, they have a right to expect sound performance from us.

If these people had been hired to run a corn-picker or a drill press, we would tell them how we wanted it run and what results we expected. Hired to run the government, they deserve no less.

Like any new employes, they need help, advice and reassurance. This is especially true of those newly elected to office. Few of them were unanimous choices. In many cases considerable numbers of their new constituents preferred their rivals.

Both the winner and those he serves must now forget this.

This requires the officeholder to remember that his job is not to punish or reward but to serve the people.

It requires his supporters to curb their elation and his adversaries, their disappointment. Those who entered the voting booth as Republicans or Democrats now become just Americans. As they peel the partisan stickers off their automobiles, they can peel them also out of their minds.

Those who take this adult view will accept that the majority has chosen wisely; that the winners—at whatever level—are those best fitted for the work.

This does not make the task less monumental or the need for counsel less great.

The thousands who were active—many of them for the first time—in this campaign, and the millions who voted on Nov. 8 still have work to do.

The problems discussed in the campaign are problems still. The election decided only who shall be our agents in solving them. The best solutions will come through the accumulated wisdom of all of us.

No elected official can be expert in taxation, foreign trade, medical care, prices, competition or the dozens of other matters with which public officials are asked to deal. He cannot know business needs so well as businessmen; farm needs so well as farmers; school needs so well as those in the school's own community. But those who are experts in these fields can take the initiative by meeting their new representatives and sharing their knowledge with them.

If every citizen offers friendship and guidance to his new officials, we will have a government and an economy that can cope effectively with local, national or world events.

If, through pique, exultation or disinterest, we abdicate our rights and duties as citizens, the whole country may have lost this election.



Hardly any group is too small to get insurance under The Travelers umbrella!

If four or more people are employed in your business—the minimum number varies from state to state—your Travelers Agent or broker has a new package of benefits for you and your employees. ¶ Life Insurance, Accidental Death, Weekly Disability Income, Hospital, Medical, Surgical and Major Medical benefits are available in most states. ¶ Amounts of insurance are liberal. Administrative features are simple and streamlined. The cost is low. ¶ Ask your Travelers man today about the employee plan for "Four or More."

THE TRAVELERS

Insurance Companies HARTFORD 15, CONN.



Handsome is and handsome does

colorful Butler Buildings are functional too!

It's no accident that Butler buildings are finished with the most striking *and* protective color offered in the industry – Butler-Tone™. Butler alone uses America's number one system of pre-coating metal panels. Butler alone coats both sides. Butler-Tone adds extra years of new-looking color and time-defying protection. Maintenance costs are minimized.

Add Butler-Tone to the industry's two outstanding wall systems, optional roof guarantee, widest range of clear-span sizes and types – and you have America's number one pre-engineered building value.

Phone your Butler Builder for the full story. He's in the Yellow Pages under "Buildings" or "Steel Buildings." Ask about financing, too. Or write direct.

CELEBRATING 50 YEARS BUTLER FABRICATING METALS

BUTLER MANUFACTURING COMPANY

7456 EAST 13TH STREET, KANSAS CITY 26, MISSOURI

Manufacturers of Metal Buildings • Plastic Panels • Equipment for Farming, Transportation, Bulk Storage, Outdoor Advertising • Contract Manufacturing

